

Credit Currents Quarterly:

Insights across public and private credit

April 2, 2026



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Topics in this piece:

Macro
Liquid credit
Private credit
Commercial Real Estate

Estimated read time: 40 minutes

Uneven resilience:

I. Macro (*pages 2-7*)

- Markets are now navigating a more complex and less supportive risk environment. Geopolitical developments add another layer of uncertainty, but the extent of impacts is still unknown.
- Regional divergence matters more, with the U.S. appearing relatively more resilient than Europe.

II. Liquid credit (*pages 8-17*)

- Recent spread widening reflects a modest rebuild of risk premia, in our view. All-in yields remain attractive by historical standards, but we expect returns will come more from carry and security selection, rather than from broad spread compression.
- Dispersion is becoming more pronounced. Pressure remains evident in software, while higher-quality credit has generally proven more resilient.

III. Private credit (*pages 18-26*)

- Private credit remains well positioned, in aggregate, but manager selection and underwriting discipline are becoming more important differentiators.
- Signals of stress, including PIK utilization and covenant defaults, are worth monitoring, but do not yet point to broad-based deterioration in underlying private credit fundamentals.

IV. Commercial real estate (*pages 27-30*)

- Continued progress on CRE price stability and transaction activity suggests a narrowing gap between buyers and sellers.
- Even with stabilization underway, residual stress is still moving through the market.

V. Risks to our view

- The ongoing Mideast conflict represents the largest risk to our view. We expect that the severity and duration of the conflict will ultimately determine the extent of lasting impacts.

Macro

Ushering in a more complex macro backdrop

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Uneven resilience

The first quarter of 2026 marked a shift in tone for credit markets.

This adjustment follows a prolonged period of resilience, where growth has remained ‘good enough’ and corporate fundamentals broadly stable. Markets are now navigating a more complex and less supportive risk environment.

After entering the year with tight spreads and supportive technicals, performance has moderated across most segments of the credit market, in our view, reflecting a repricing of risk as the macro backdrop and sector-specific dynamics have become more uncertain.

Importantly, we view the recent widening as a normalization rather than a dislocation. Even so, tighter financial conditions (Exhibit 1), combined with evolving macro and sector pressures, point to a more challenged return environment in the near term.

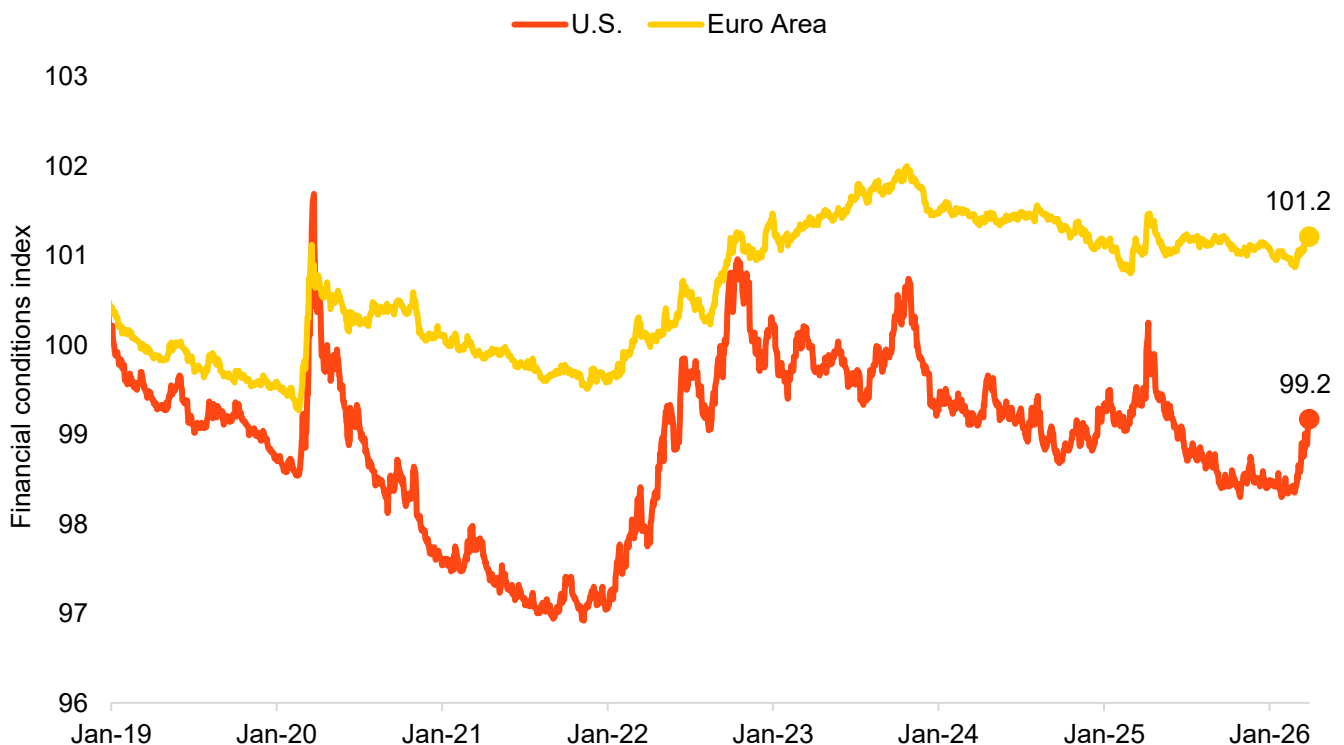
Geopolitical developments add a further source of risk, particularly through disruptions to global energy supply. Such shocks could further tighten financial conditions and weigh on growth, with effects likely to be uneven. As the *BlackRock Investment Institute* has noted, Europe and North Asia (including Japan) are more exposed to energy disruptions than the U.S. Across regions, the severity and duration of the conflict will ultimately determine the extent of lasting impacts.

Against this backdrop, we expect dispersion to remain a defining feature of credit markets, and we see scope for it to increase ahead. And while all-in yields remain attractive by historical standards, we believe returns in the near term will be driven less by meaningful spread compression and more by carry and issuer selection.

In this environment, a cautious and selective approach is essential, with an emphasis on fundamental underwriting and active credit selection.

Exhibit 1: Financial conditions have tightened in 2026

Goldman Sachs U.S. and Euro Area Financial Conditions Index



Source: Goldman Sachs, Bloomberg, BlackRock. As of March 30, 2026.

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Central banks underscore uncertainty ahead

Recent central bank communication highlights this increasing divergence in the macro backdrop across regions. Indeed, commentary from the March 2026 meetings of the Federal Reserve (Fed), European Central Bank (ECB), and Bank of England (BoE) provides additional clarity on how policymakers are assessing these dynamics.

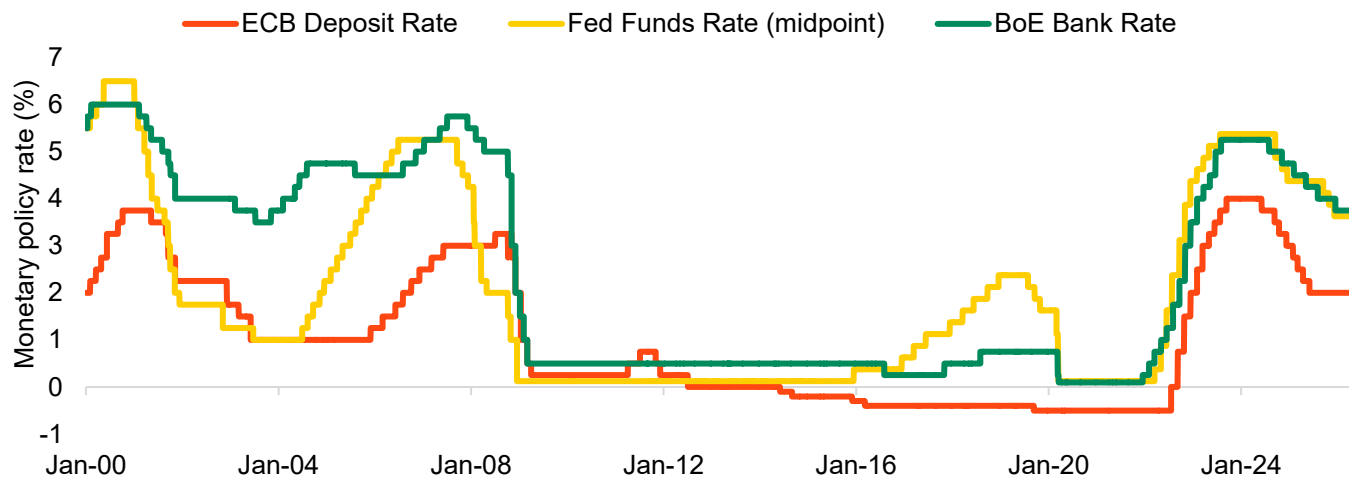
Policy rates were held steady across all three regions (Exhibit 2), while the underlying growth outlook diverged. In the U.S., median growth expectations improved modestly, supporting a relatively resilient outlook. In contrast, expectations for growth in the Euro Area were revised downward, reflecting greater sensitivity to external shocks (Exhibit 3).

Inflation remains a central concern across all three central banks. That said, differences in central bank mandates will likely shape how policymakers respond. The Fed's dual mandate, of maximum employment and price stability, allows for a broader range of outcomes, while the ECB and BoE's primary focus on price stability supports a more inflation-sensitive stance.

Taken together, recent communications point to a policy environment that remains data-dependent, with limited near-term conviction and increasing divergence in regional policy trajectories.

Exhibit 2: The path ahead for central banks is considerably uncertain

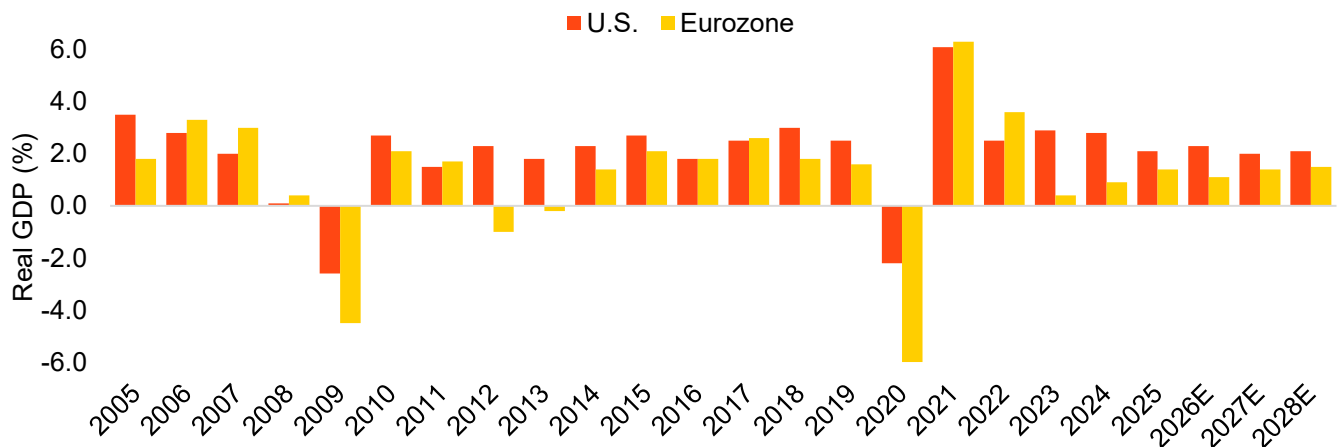
Monetary policy rates for the European Central Bank, Federal Reserve, and Bank of England



Source: BlackRock, European Central Bank, Federal Reserve, Bank of England, Bloomberg. As of March 31, 2026.

Exhibit 3: Key uncertainties underpin growth expectations across markets

Actual real GDP (annual, year-over-year) for the U.S. and Eurozone from 2005 to 2025, and Bloomberg composite forecasts for full-year 2026 – 2028



Source: Bloomberg, BlackRock. As of March 30, 2026. 2026 – 2028 estimates use the Bloomberg Composite of forecasters. There is no guarantee any forecasts may come to pass.

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Navigating tension in the Fed’s dual mandate

In the U.S., the Federal Reserve’s dual mandate goals of maximum employment and price stability remain in tension (Exhibit 4). At the March 2026 Federal Open Market Committee (FOMC) [press conference](#), Federal Reserve Chair Jerome Powell noted that it’s not clear whether one objective is “more at risk than the other.” Further, he described current policy rates as “mildly” restrictive, but appropriate given current conditions.

Labor market dynamics continue to support this view. While the unemployment rate has moved modestly higher from cycle lows in 2023, it remains low by historical standards at 4.4% as of February 2026. This suggests a labor market that is cooling at the margin but remains broadly balanced, with low labor demand and low job creation.

Inflation continues to run above target. PCE, the Federal Reserve’s preferred measure of inflation, remains elevated relative to its 2% target, extending a period of elevated inflation that has been in place since 2021. The same is true of core PCE, which excludes more volatile components such as food and energy.

Further, there are two factors worth monitoring in assessing upside risks to inflation, in our view.

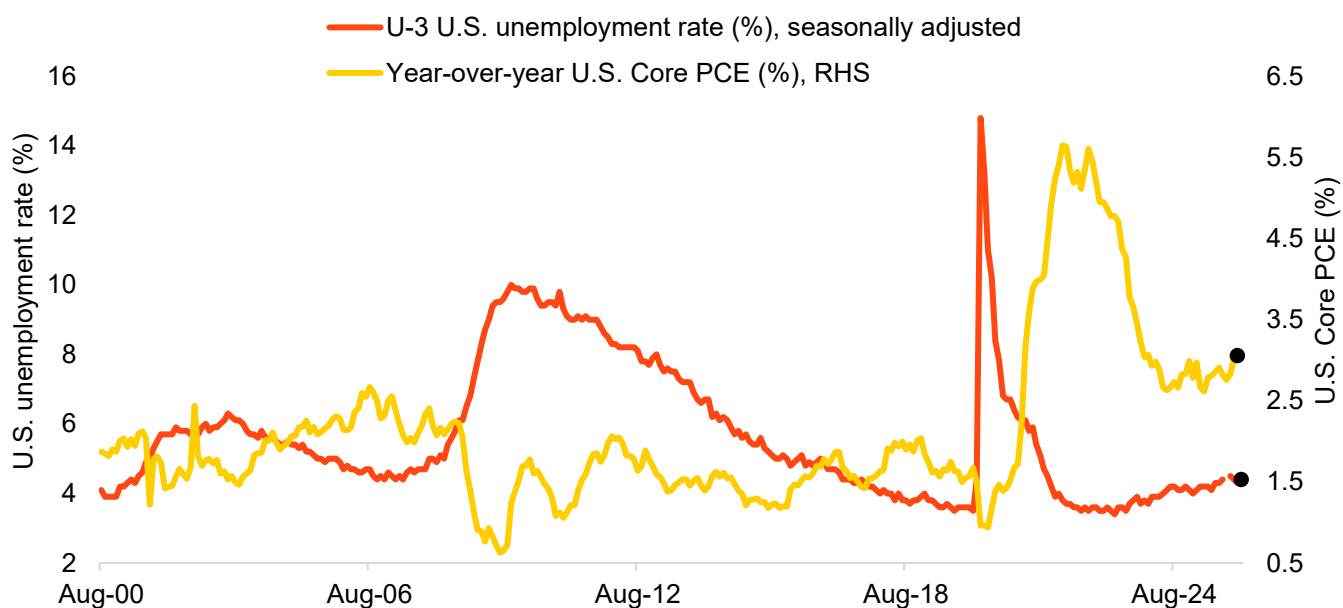
First is tariffs. During the FOMC press conference, Powell noted that “one-time effects” of tariffs on prices are still working their way through the economy, and that the Fed expects goods inflation to “come back down” when they have.

Second is energy prices. As our colleagues at the [BlackRock Investment Institute](#) have highlighted, an “escalating Middle East conflict” has led to energy markets pricing “a prolonged supply-driven shock that lifts inflation.” A March 2026 report from Goldman Sachs echoes this, noting that a 10% increase in oil prices could influence headline inflation by 20-30 basis points, though the impact to core inflation measures would likely be more limited.

Taken together, a softened but stable labor market alongside above-target inflation supports a policy backdrop that is likely to remain restrictive for longer. Absent a sharp deterioration in the labor market, we expect that the bar for material policy easing is high, resulting in structurally elevated policy rates.

Exhibit 4: The Fed’s dual mandate remains in tension

U-3 U.S. unemployment rate (%) seasonally adjusted, and year-over-year U.S. Core PCE inflation (%) seasonally adjusted, RHS



Source: Bureau of Labor Statistics, Bureau of Economic Analysis, BlackRock. Captures unemployment data through February 28, 2026 and inflation data through January 31, 2026 (most recent available as of March 31, 2026).

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U.S. consumer: Aggregate resilience, but continued dispersion

The consumer remains a central pillar of U.S. economic activity, accounting for roughly two-thirds of U.S. GDP. In aggregate, the consumer continues to show resilience, though underlying conditions are increasingly uneven.

The contrast of aggregate resilience, but meaningful dispersion, is partly explained by spending trends across income cohorts. Higher-income households continue to disproportionately support aggregate consumption, with the top 40% of earners accounting for 61% of total spending, per data from the 2024 Consumer Expenditure Survey, which was published in December 2025 (Exhibit 5). By contrast, the bottom 40% of earners account for a much smaller share of total consumption, at just 22%.

This dynamic points to growing bifurcation in the consumer base. Higher-income households are more likely to be net asset owners, benefiting from gains in housing and equity markets. Lower-income households, by contrast, are more often net borrowers, facing higher debt service costs without similar asset appreciation.

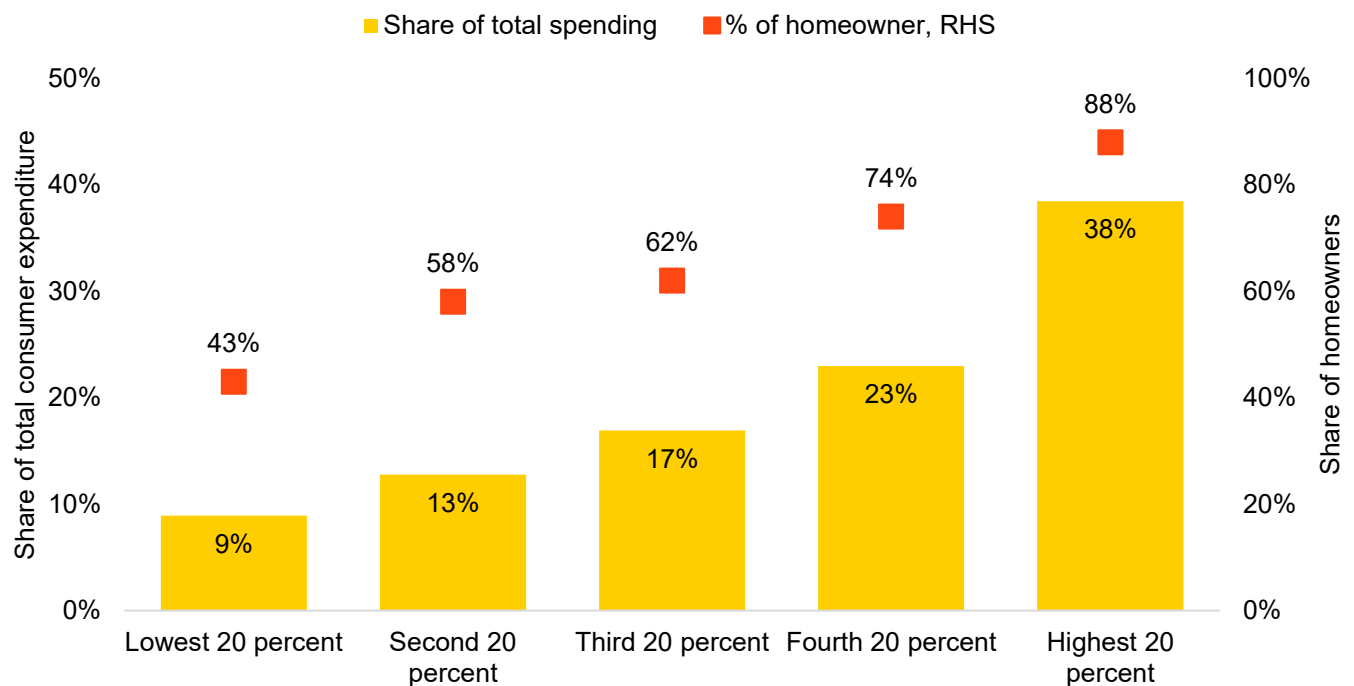
There are also signs of stress among more vulnerable borrowers. Data from the New York Fed Quarterly Household Debt and Credit Report shows that aggregate delinquent balances increased during 4Q2025, reaching 4.8% of total (Exhibit 6). While this marks the highest level since 3Q2019, it remains below the post-GFC average of 5.5%. Exhibit 7 demonstrates how 90+ day delinquencies have been concentrated in credit cards, consumer finance and retail loans, and student loans, with the resumption of student loan payments contributing to the trend.

In contrast, housing-related credit performance remains strong. Mortgage and home equity line of credit (HELOC) delinquencies are low, supported by substantial home price appreciation over recent years.

Taken together, the consumer remains resilient in aggregate, though increasingly driven by higher-income cohorts. Pockets of stress among select borrowers warrant continued monitoring as well. For credit investors, such bifurcation warrants watching as it can have direct implications on borrower performance, including due to customer end market exposures.

Exhibit 5: Higher income cohorts disproportionately contribute to total consumer spending

Share of total consumer expenditure and homeownership rate, RHS, by income quintile

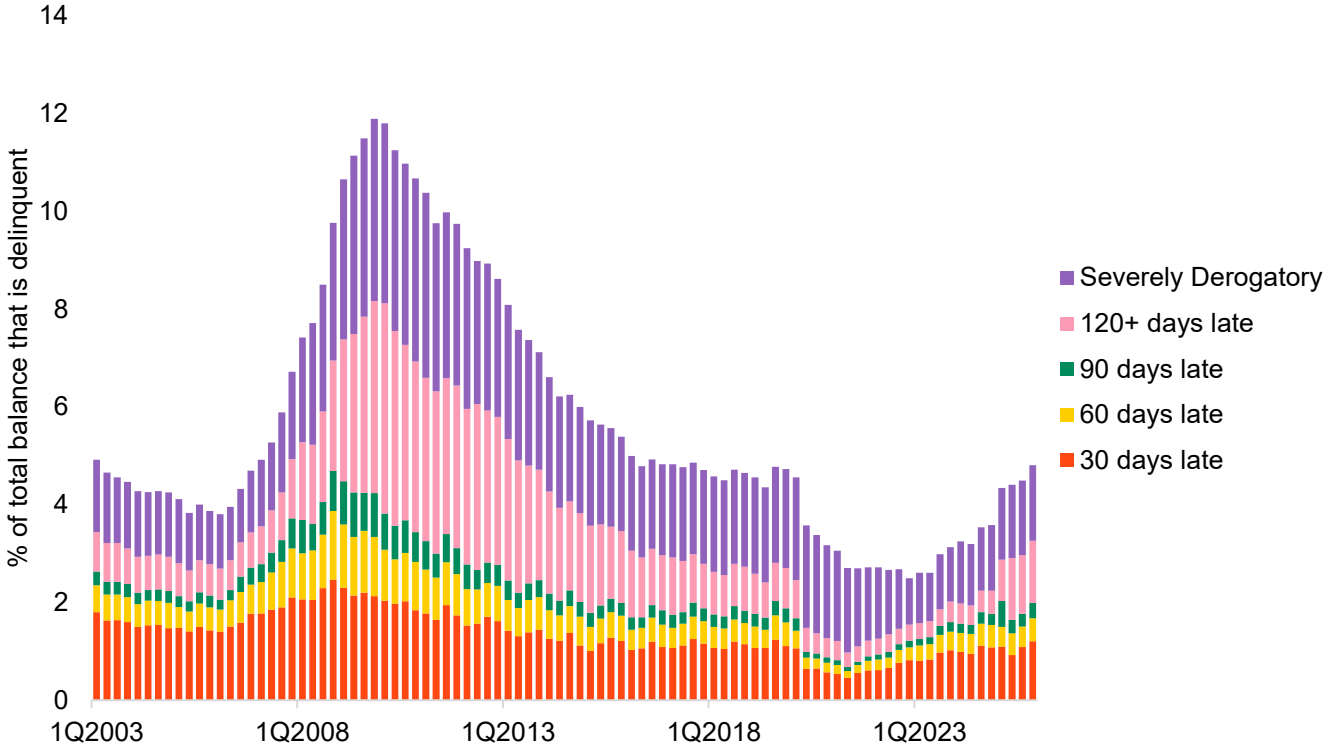


Source: U.S. Bureau of Labor Statistics Consumer Expenditure Survey, BlackRock. As of YE2024 (most recent available as of March 31, 2026). Captures consumer units, which consist of families, single persons living alone or sharing a household with others but who are financially independent, or two or more persons living together who share major expenses.

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Exhibit 6: Delinquent balances increased modestly in 4Q2025

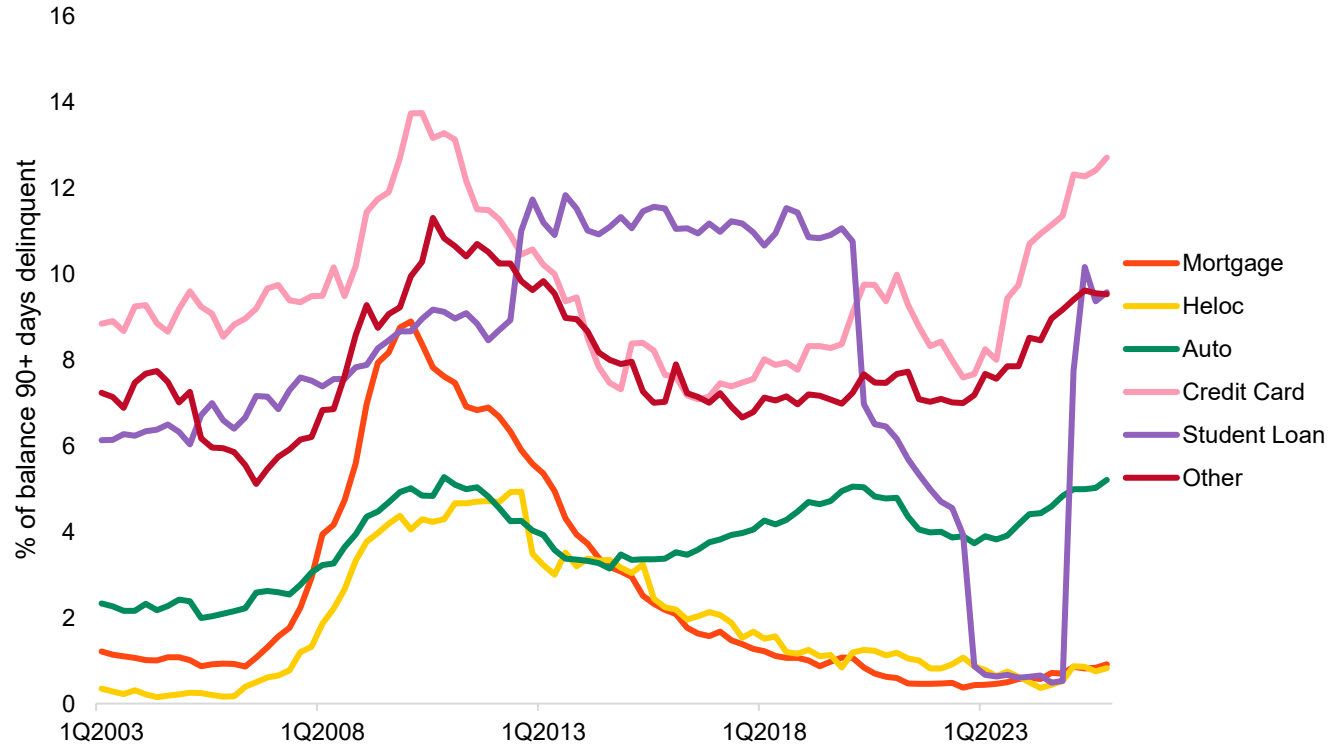
Delinquent balance as a share of total U.S. consumer debt



Source: New York Fed Consumer Credit Panel/Equifax, BlackRock. As of 4Q2025 (most recent as of March 31, 2026).

Exhibit 7: There is notable dispersion in delinquencies between consumer credit types

Percent of balance 90+ days delinquent, by loan type



Source: New York Fed Consumer Credit Panel/Equifax, BlackRock. As of 4Q2025 (most recent as of March 31, 2026). The Other category includes Consumer Finance (sales financing, personal loans) and Retail (clothing, grocery, department stores, home furnishings, gas etc.) loans.

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Liquid credit

A rebuild in risk premia, alongside rising dispersion

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Checking in on performance across liquid credit markets

The last few weeks have marked a shift in tone for liquid credit markets, with performance softening amid a more uncertain macro backdrop and evolving sector dynamics. In aggregate, we view this as a normalization from tight levels rather than a sign of broader deterioration in fundamentals.

While spreads have widened from earlier this year, they remain tight by historical standards (Exhibit 9). All-in yields remain attractive, which we expect will be supportive of investor demand (Exhibit 10).

At the same time, fundamentals, including corporate margins, leverage, and interest coverage, remain stable at an aggregate level for USD IG and HY markets (Exhibit 11, 12, 13).

That said, the risk environment has become more complex. Geopolitical uncertainty, ongoing volatility (Exhibit 8), and evolving macro themes, including AI disruption, are all contributing to a less supportive backdrop. As a result, we believe the bar for sustained spread compression is higher than in recent periods, and we expect spreads to remain in a wider range over the medium term, or until there is greater macro clarity.

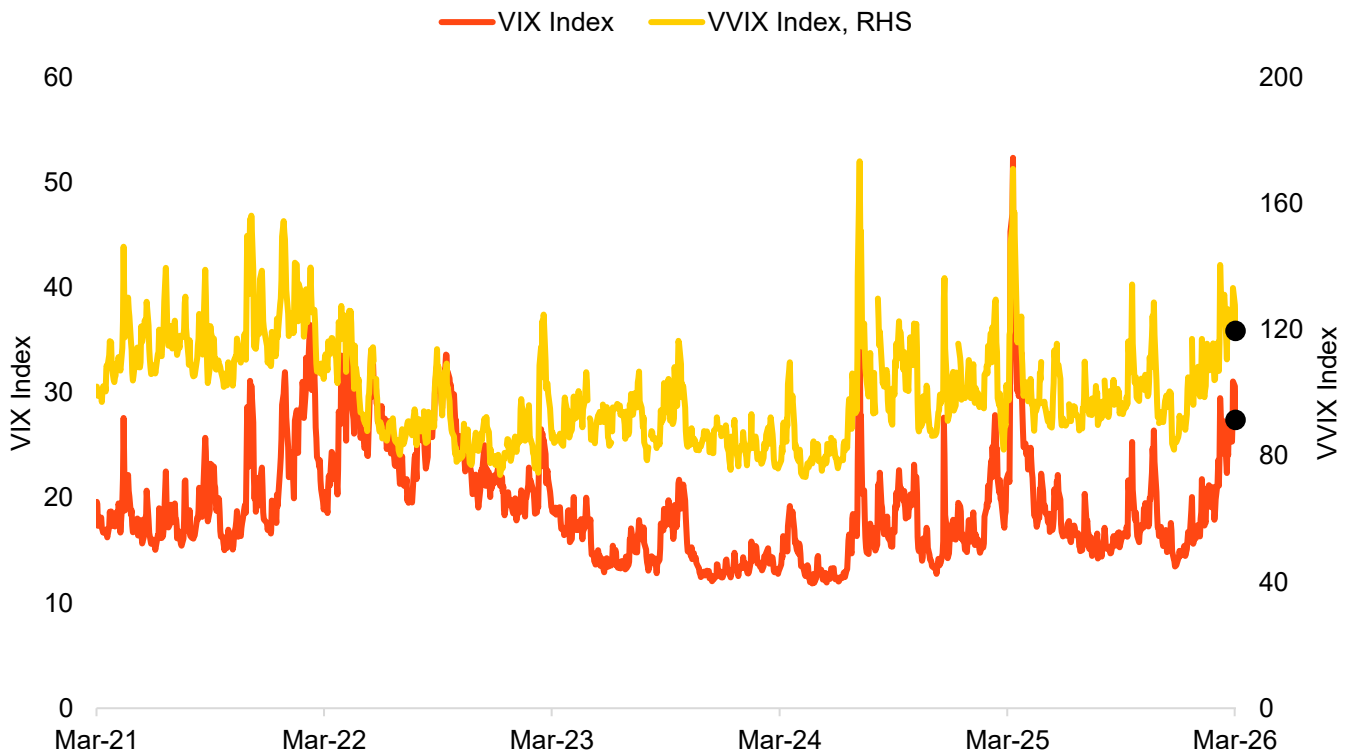
Beneath the surface, dispersion has become more pronounced across regions, ratings, sectors, and issuers, a trend we expect to continue.

Episodic volatility, which we anticipate will remain a feature of the 2026 market environment, is likely to disproportionately impact lower-rated credits and sectors exposed to disruptions, in our view.

Taken together, we see a market characterized by wider but range-bound spreads, still-attractive all-in yields and increasing dispersion. In this environment, returns are likely to be driven more by carry and issuer selection, reinforcing the importance of disciplined underwriting and active credit allocation across USD investment grade, high yield, and leveraged loans.

Exhibit 8: We expect episodic volatility will remain a key feature of the investing backdrop

Daily values of the CBOE VIX Index (a proxy for U.S. equity market volatility), and the CBOE VVIX Index (which measures volatility of the VIX)



Source: CBOE, Bloomberg, BlackRock. As of March 31, 2026.

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Exhibit 9: Spreads remain tight...

Percentile rank of daily index-level corporate bond option-adjusted spreads, since January 1, 2010

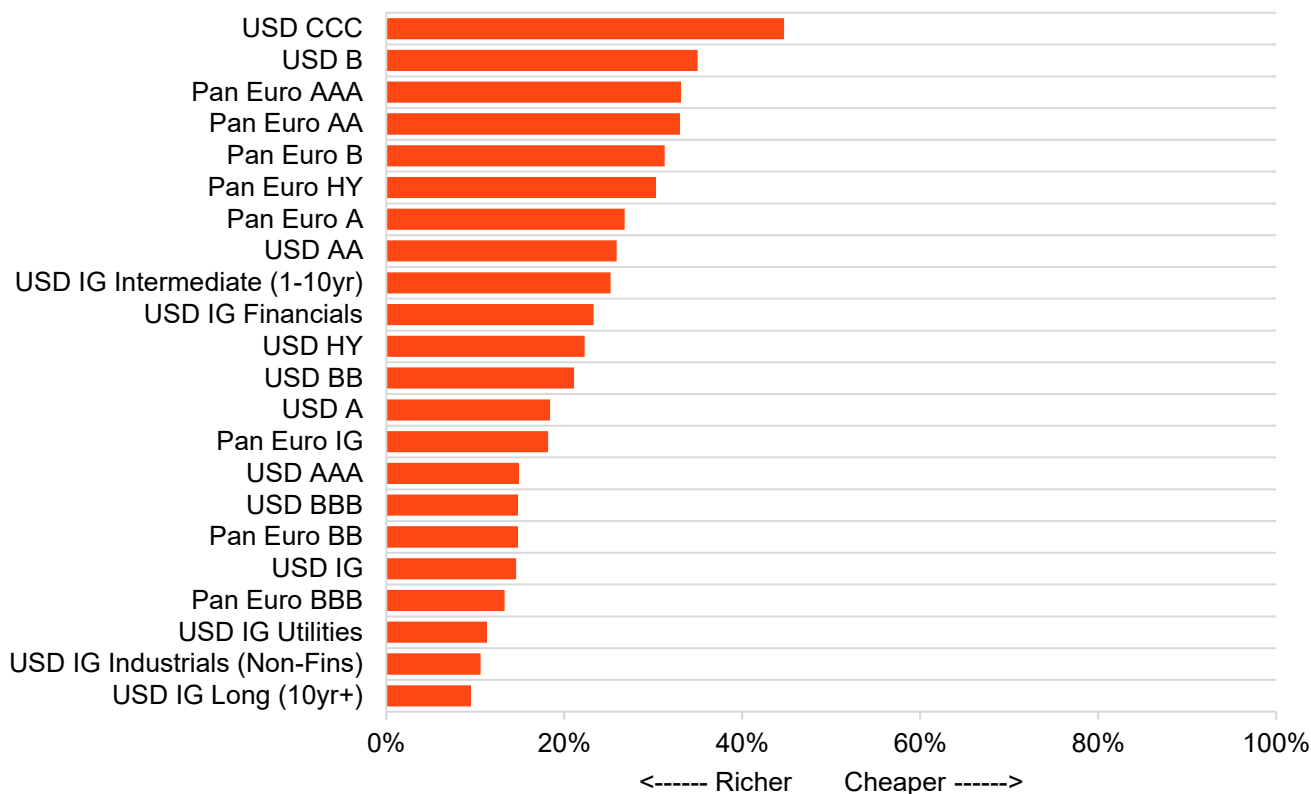
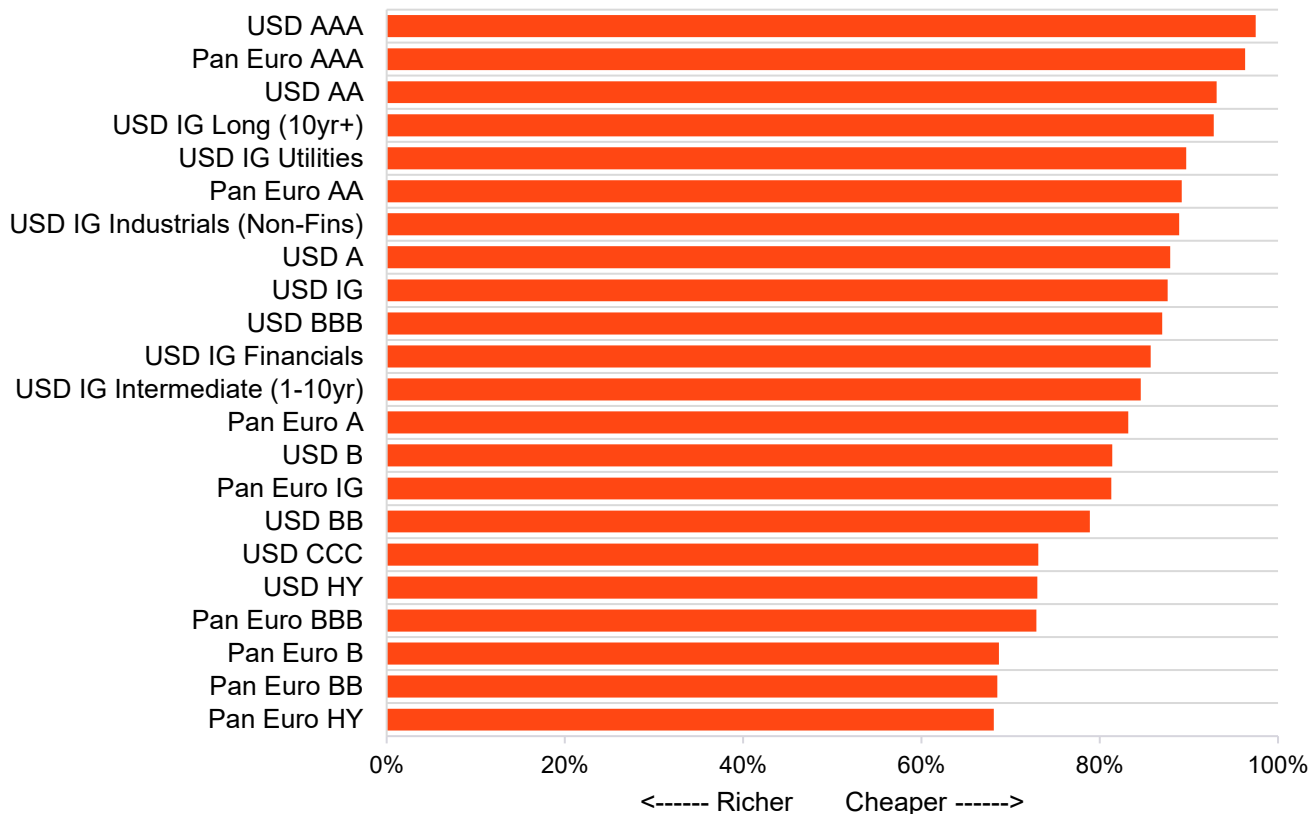


Exhibit 10: ...though all in yields remain attractive by historical standards

Percentile rank of daily index-level corporate bond yield-to-worst levels, since January 1, 2010

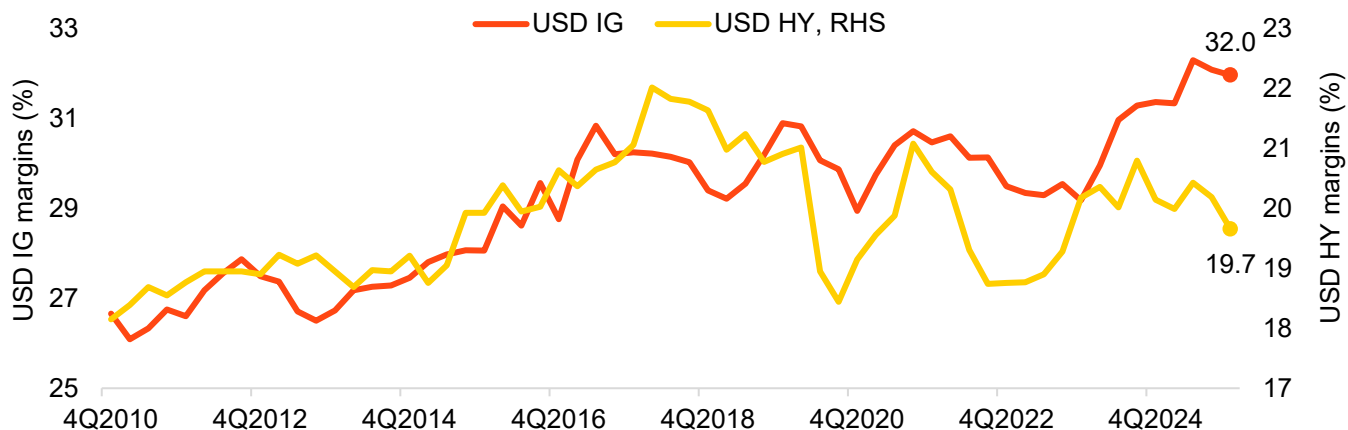


For both charts: Source: BlackRock, Bloomberg. As of March 30, 2026. The figures shown relate to past performance. **Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs, or expenses. Indices are unmanaged and one cannot invest directly in an index.

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Exhibit 11: Margins remain considerably resilient, especially in USD IG

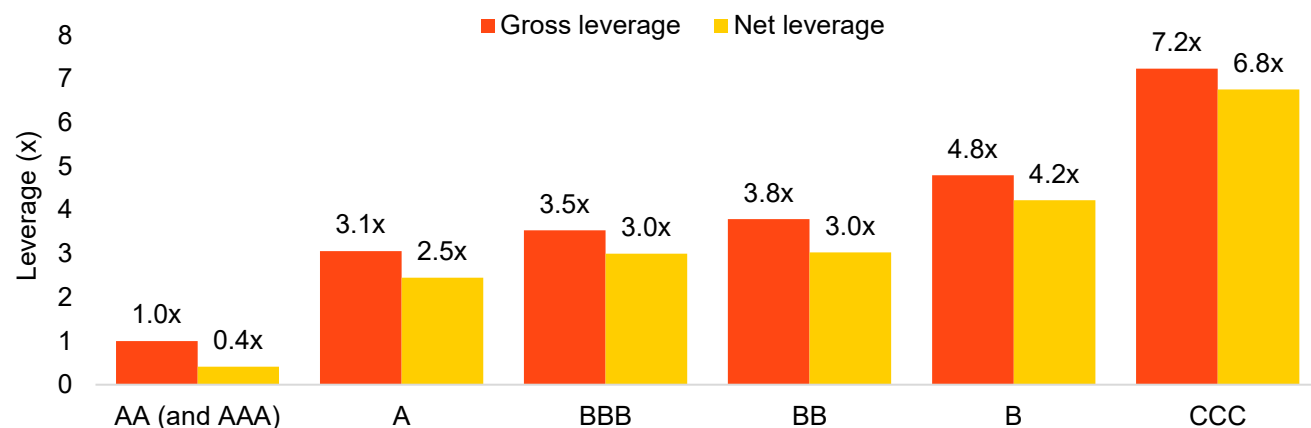
Trailing 12-month adjusted EBITDA margins for the median issuer in the Bloomberg USD IG and HY, RHS, Corporate indices



Source: Bloomberg Intelligence, BlackRock. Captures data through 4Q2025 (most recent as of March 31, 2026).

Exhibit 12: Leverage remains modest across most segments of the USD IG and HY market

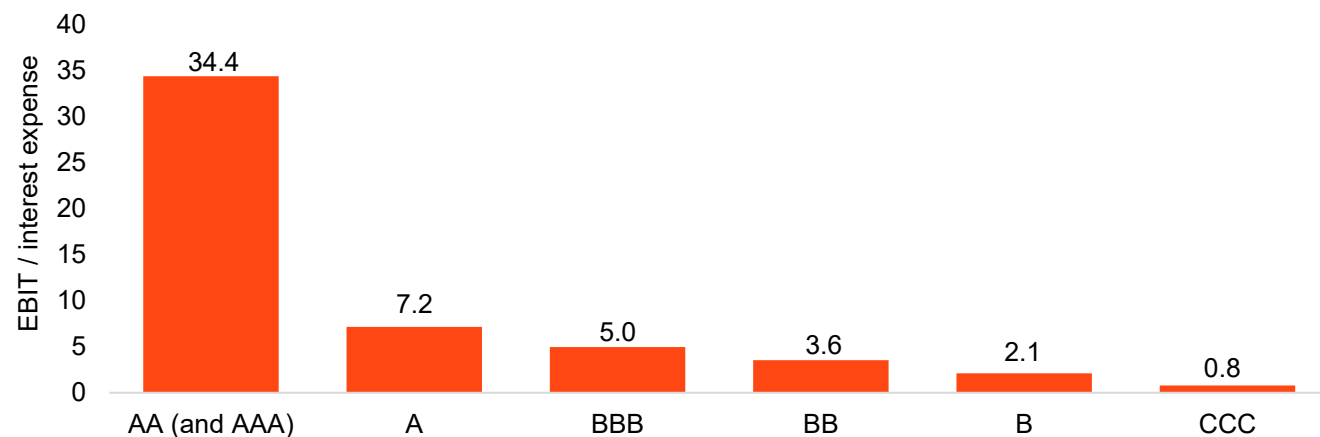
Trimmed mean (excludes top / bottom 10%) leverage metrics, for the last twelve months ended 4Q2025. Captures issuers in the Bloomberg USD IG and HY Corporate indices



Source: Bloomberg, BlackRock. Captures trailing 12-month metrics as of 4Q2025 (most recent available as of March 31, 2026).

Exhibit 13: Interest coverage varies across rating cohorts

Trimmed mean (excludes top / bottom 10%) interest coverage metrics, for the last twelve months ended 4Q2025. Captures issuers in the Bloomberg USD IG and HY Corporate indices.



Source: Bloomberg, BlackRock. Captures trailing 12-month metrics as of 4Q2025 (most recent available as of March 31, 2026).

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Issuance slows, selectively

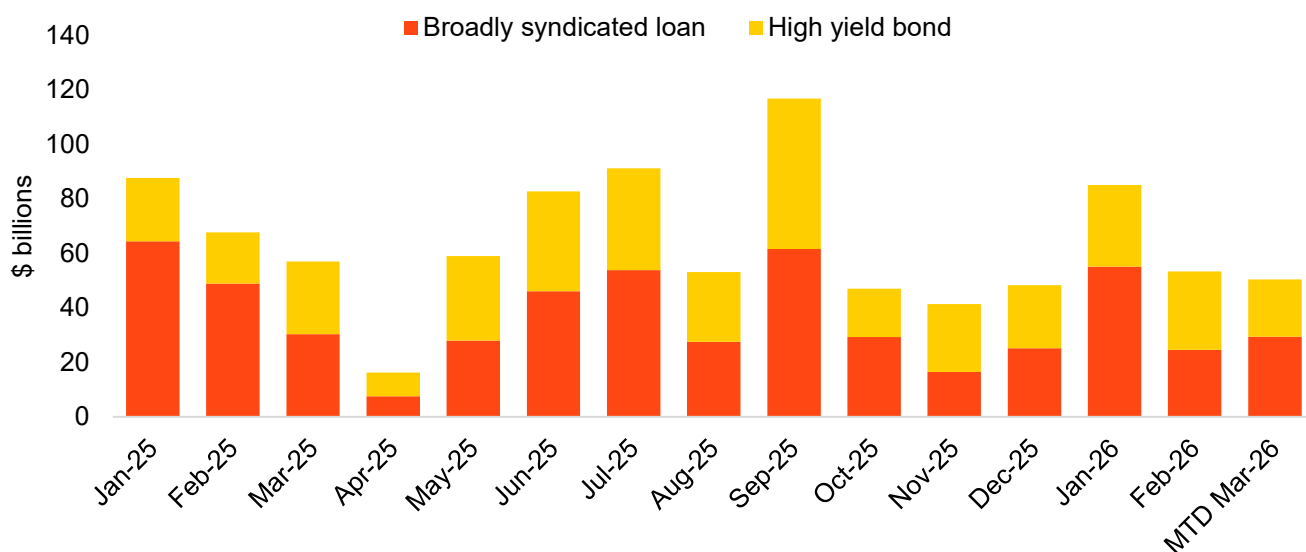
Primary markets have been considerably resilient year-to-date, in aggregate, though issuance dynamics have shifted as uncertainty builds.

Issuance across USD and EUR markets, including leveraged loans and high yield bonds, began the year on solid footing (Exhibits 14 and 15). More recently, however, increased volatility has begun to influence activity in the U.S. March month-to-date issuance, as of March 26, 2026, has skewed towards larger borrowers, or those with higher ratings. (Note that February month-end data is the most recent available for EUR markets.)

Looking ahead, continued uncertainty may weigh on syndicated issuance, particularly for lower-rated or more complex borrowers. A more stable macro backdrop, in our view, could help broaden issuance activity.

Exhibit 14: Issuance in the USD markets is increasingly selective amid volatility

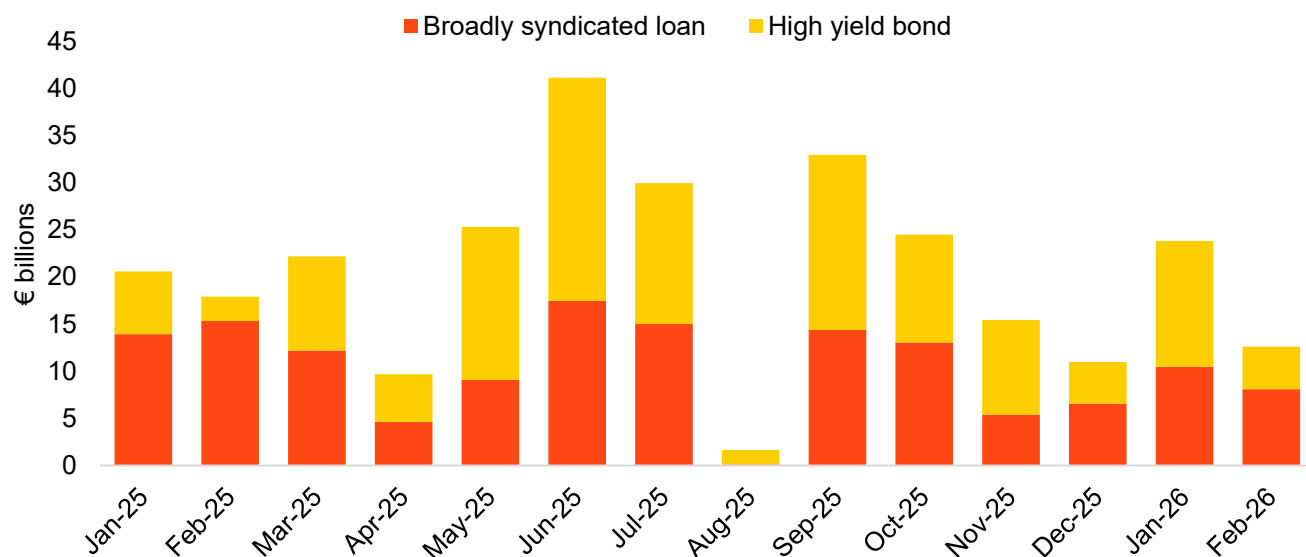
Monthly new-issue volume for USD institutional broadly syndicated loans and high yield bonds, in \$ billions



Source: Pitchbook LCD, BlackRock. March 2026 as of March 26, 2026.

Exhibit 15: We expect issuance may slow selectively amid volatility

Monthly new-issue volume for EUR broadly syndicated loans and high yield bonds, in € billions



Source: Pitchbook LCD, BlackRock. As of February 28, 2026. Note: HY volume excludes PIK instruments & short-term bonds; reflects corporate bonds only. In case of a global issue, the portion allocated to European HY investors is counted (if unknown, the entire global issue is counted).

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Favorable supply technicals in the leveraged loan and HY market

Issuance activity has favored refinancings, repricings, and maturity extensions in recent months, limiting net new supply and providing a supportive technical backdrop for credit markets. This dynamic can be supportive for spread levels, though benefits are likely to be uneven.

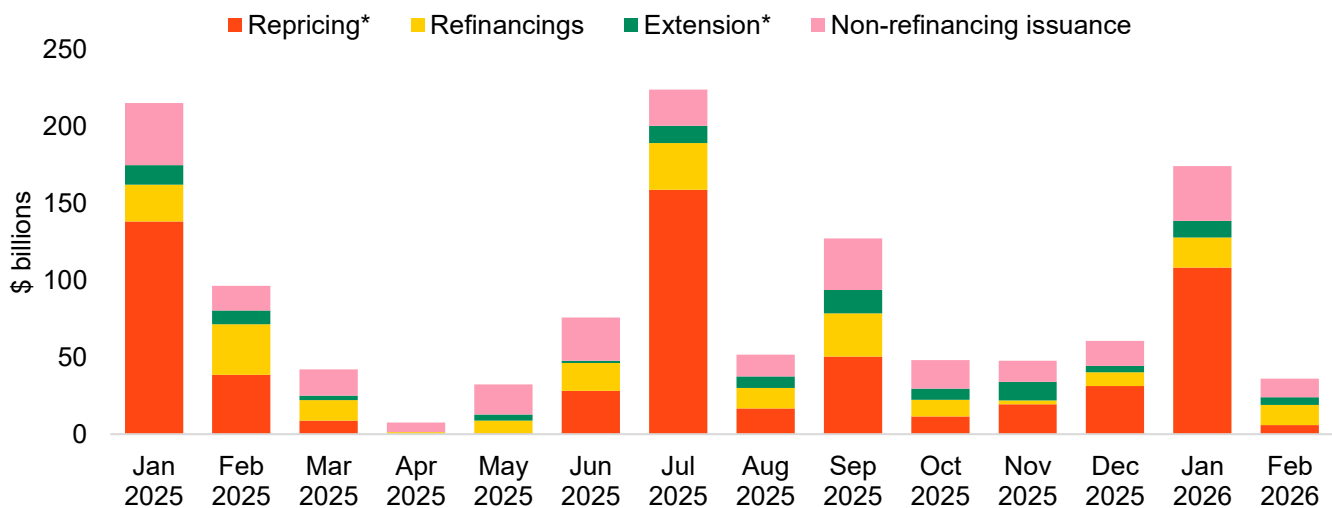
This trend is evident across both loan and bond markets. In leveraged loans, non-refinancing activity has accounted for just 23% of year-to-date issuance in the U.S. and 14% in Europe (Exhibits 16 and 17, as of February 28, 2026).

A similar pattern is evident in high yield bonds, where 55% of USD and EUR issuance has been directed toward refinancing or repayment, according to Dealogic (Exhibits 18 and 19). While this is broadly in line with the post-GFC average in the U.S. (54%), it is above historical averages in Europe (44%), reinforcing the more defensive nature of current issuance.

Looking ahead, market receptiveness will remain an important driver of activity. For example, a widening in spreads could reduce repricing activity and slow discretionary refinancing, particularly in the near to medium term.

Exhibit 16: Net new activity is somewhat limited in USD...

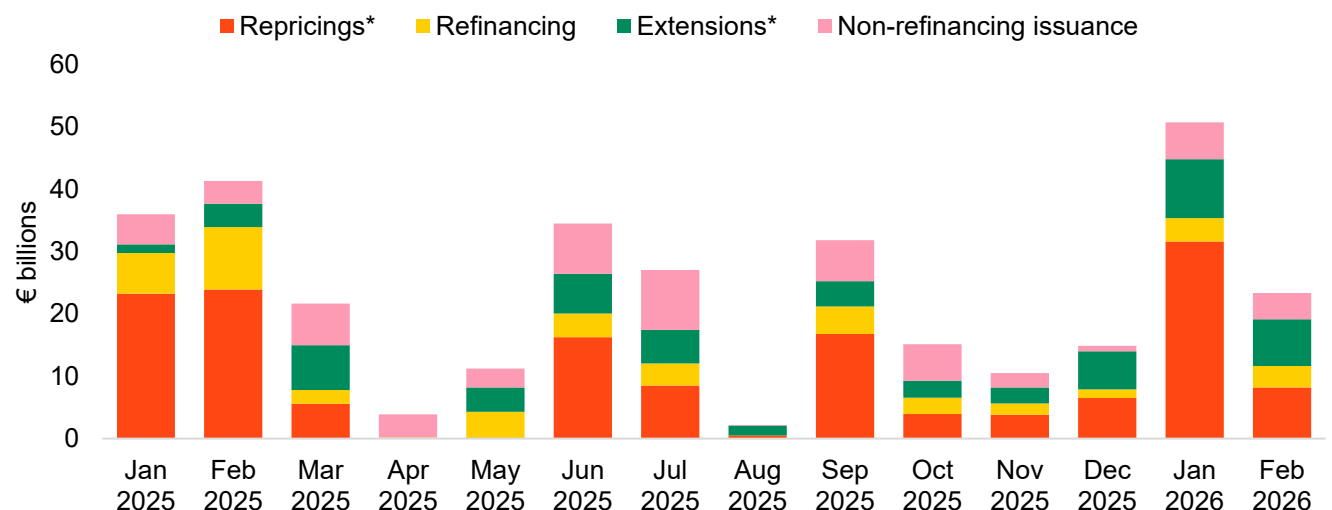
Monthly institutional volume for USD broadly syndicated loans, in \$ billions, by issuance type



Source: Pitchbook LCD, BlackRock. As of February 28, 2026. *Reflects extensions and repricings done via amendment process only.

Exhibit 17: ...and EUR leveraged loan markets

Monthly institutional volume for EUR broadly syndicated loans, in € billions, by issuance type

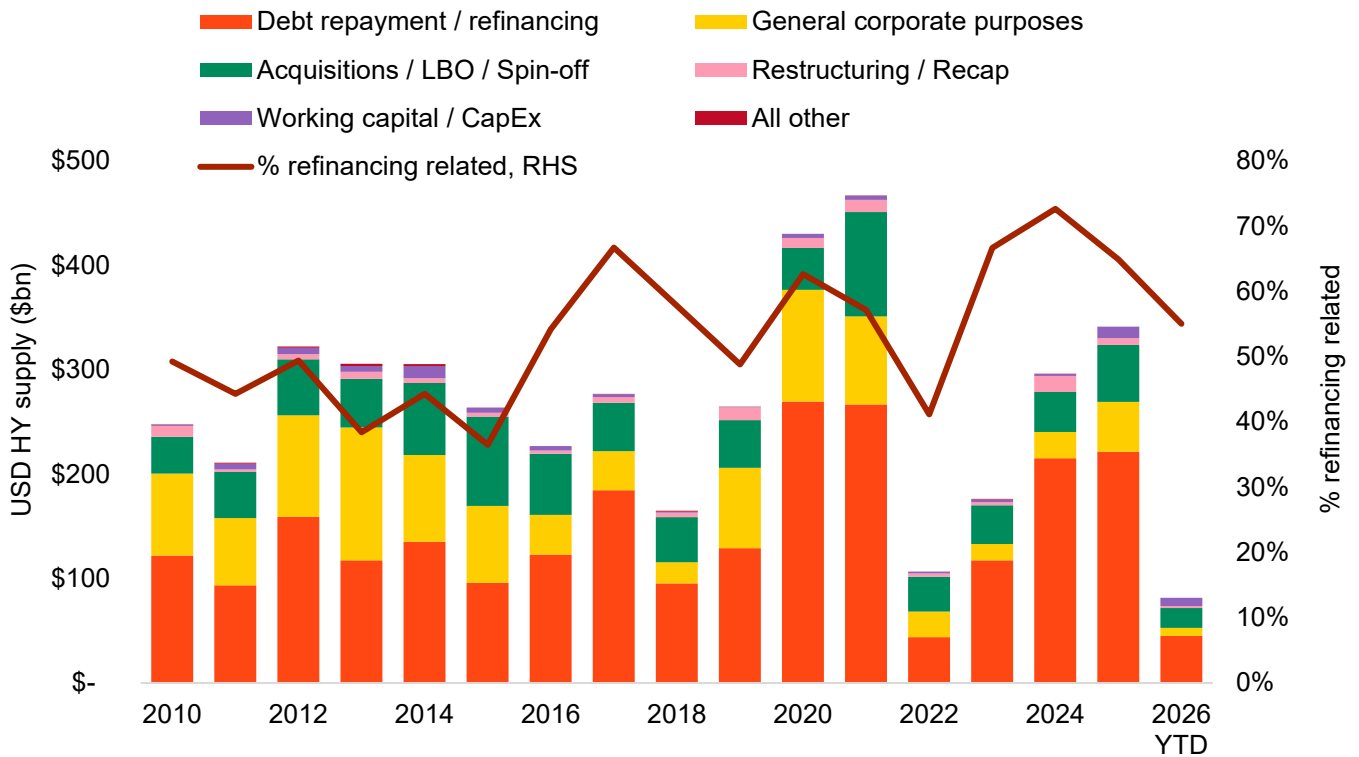


Source: Pitchbook LCD, BlackRock. As of February 28, 2026. *Reflects extensions and repricings done via amendment process only.

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Exhibit 18: Over half of recent issuance in the USD HY market has been refinancing related

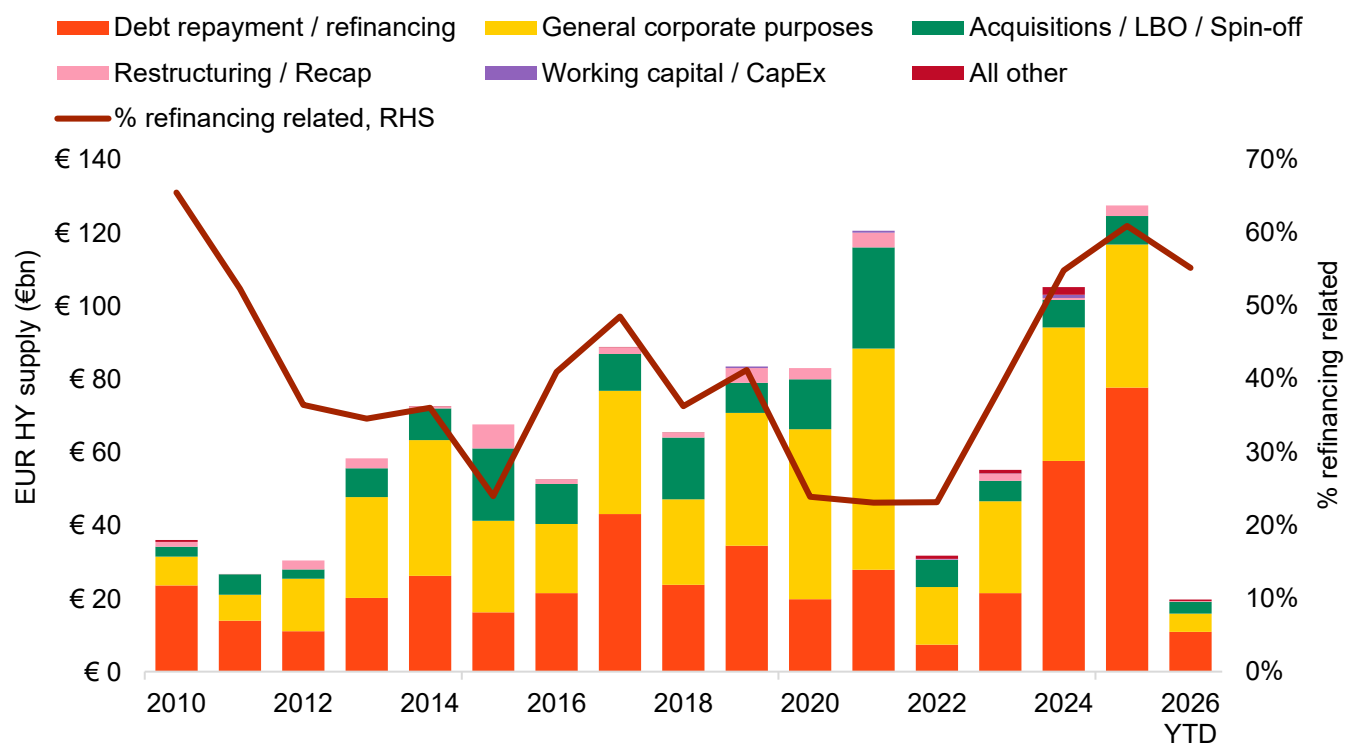
USD HY gross issuance by tranche use of proceeds and the share related to refinancing, RHS



Source: Dealogic (ION Analytics), BlackRock. 2026 YTD is as of March 31, 2026.

Exhibit 19: The same trend is evident in EUR HY markets

EUR HY gross issuance by tranche use of proceeds and the share related to refinancing, RHS



Source: Dealogic (ION Analytics), BlackRock. 2026 YTD is as of March 31, 2026.

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Elements of dispersion

While solid fundamentals and limited net new supply have supported credit markets in aggregate, we expect dispersion to remain a defining feature, including across factors such as sector, region, and rating.

Sector

Sector dispersion remains elevated and increasingly concentrated in areas facing structural or cyclical change. Such dispersion is evident in performance year-to-date.

In energy, for example, option-adjusted spreads (OAS) in both USD IG and HY markets have remained resilient compared to broader index moves.

In contrast, software has been a notable underperformer. Year-to-date, the weighted-average price of software borrowers in the USD leveraged loan index has declined 7.9% from year-end 2025 to 87.6 as of February 2026, compared to a 1.3% decline for the broader index (Exhibit 20).

In our view, this reflects a reassessment of longer-term fundamentals. Indeed, advances in AI have raised questions around revenue and profit durability, competitive positioning, and growth assumptions for software borrowers, despite continued resilience in near term operating performance for many.

The move is notable given software's historical role as a core exposure across leveraged loan and private credit markets, supported by recurring revenue models and healthy margins. In USD leveraged loans, software represents approximately 12.8% of the index, while private credit exposure is estimated to be 17%, per data from Pitchbook LCD.

Even so, outcomes are unlikely to be uniform. We expect future performance of software borrowers will vary based on factors such as end-market exposure, pricing power, product integration, and access to proprietary data.

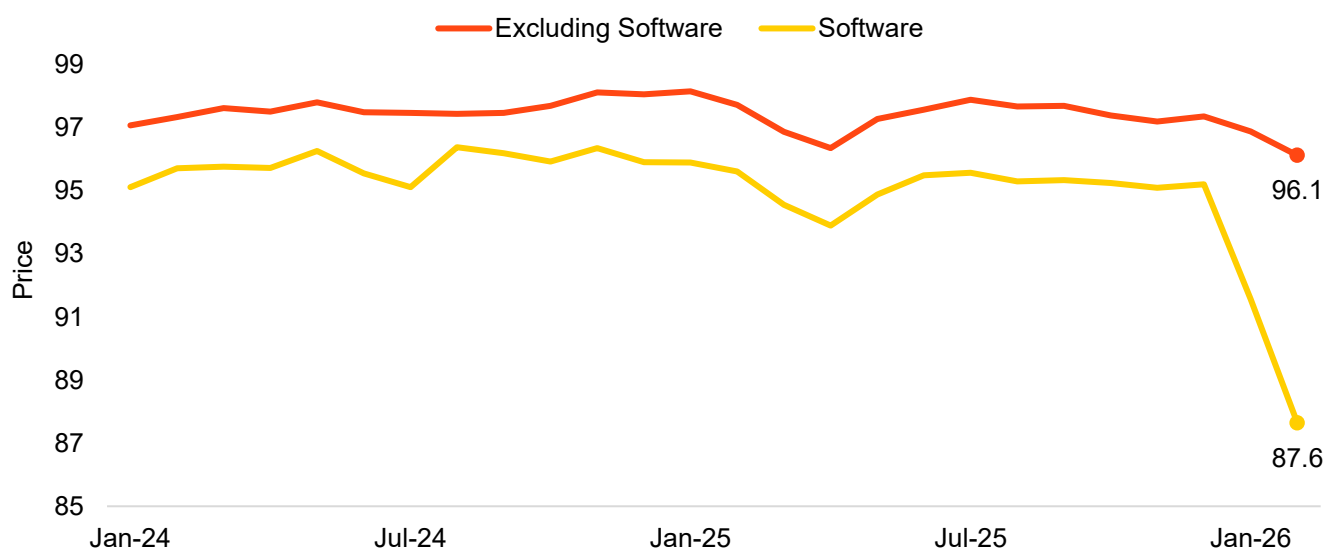
Region

Region is likely to be another source of dispersion in the months ahead, driven in part by diverging growth expectations between the U.S. and Europe.

As discussed in the macro section, U.S. growth is expected to remain relatively resilient, while the outlook in Europe is more fragile, with risks tilted to the downside. In this context, European borrowers may face relatively greater headwinds, especially in sectors more exposed to cyclical pressures and input cost volatility.

Exhibit 20: Software loans have underperformed the broader index

Weighted-average bid price of performing loans in the LSTA US Leveraged Loan Index



Sources: PitchBook LCD, Morningstar LSTA US Leveraged Loan Index, BlackRock. Data through February 28, 2026.

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Rating

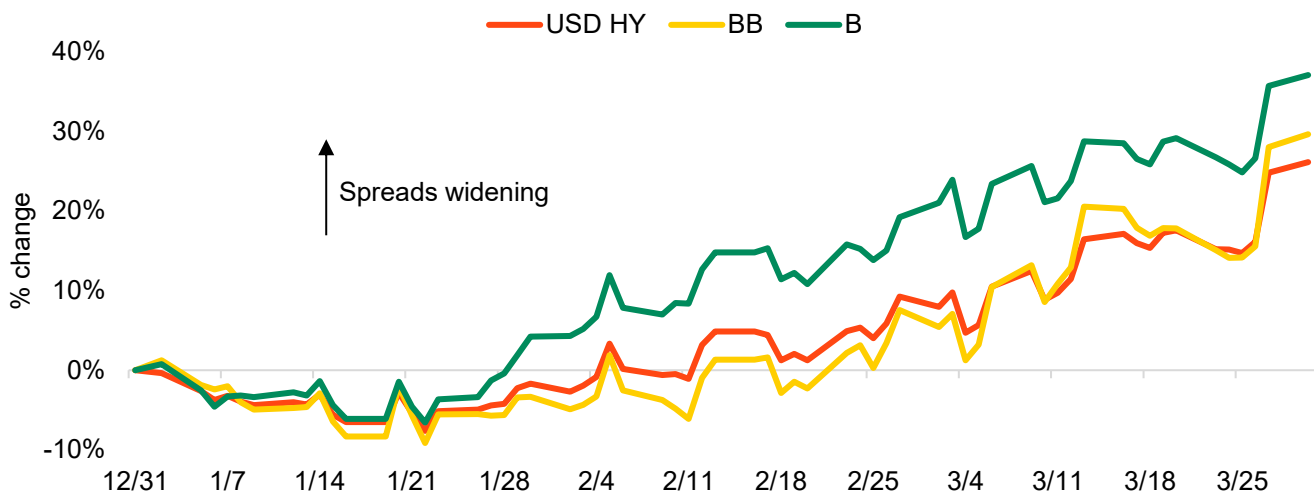
Another element of dispersion across liquid credit markets has been in ratings, with single B segments lagging higher-quality peers (i.e., BB) year-to-date. This has been evident across both the USD HY bond and leveraged loan markets, where we believe increasing macro uncertainty and episodic volatility have encouraged investors to be more selective in their risk appetite.

In the USD HY market, this dynamic is reflected in year-to-date changes in spread levels. B-rated issuers have seen more pronounced spread widening relative to BBs and the broader index, highlighting a more cautious stance toward lower-quality credit, in our view (Exhibit 21).

A similar pattern is evident in the USD leveraged loan market. Indeed, weighted-average prices for B-rated loans have declined more materially relative to BB-rated, resulting in a wider differential in price levels across ratings (Exhibit 22). And while this dynamic has been partly influenced by weakness in software-related loans, the trend is not limited to that sector alone. It instead reflects a broader repricing of risk within lower-rated loans, as investors demand greater compensation for uncertainty and potential downside.

Exhibit 21: B-rated bonds have underperformed the broader HY index

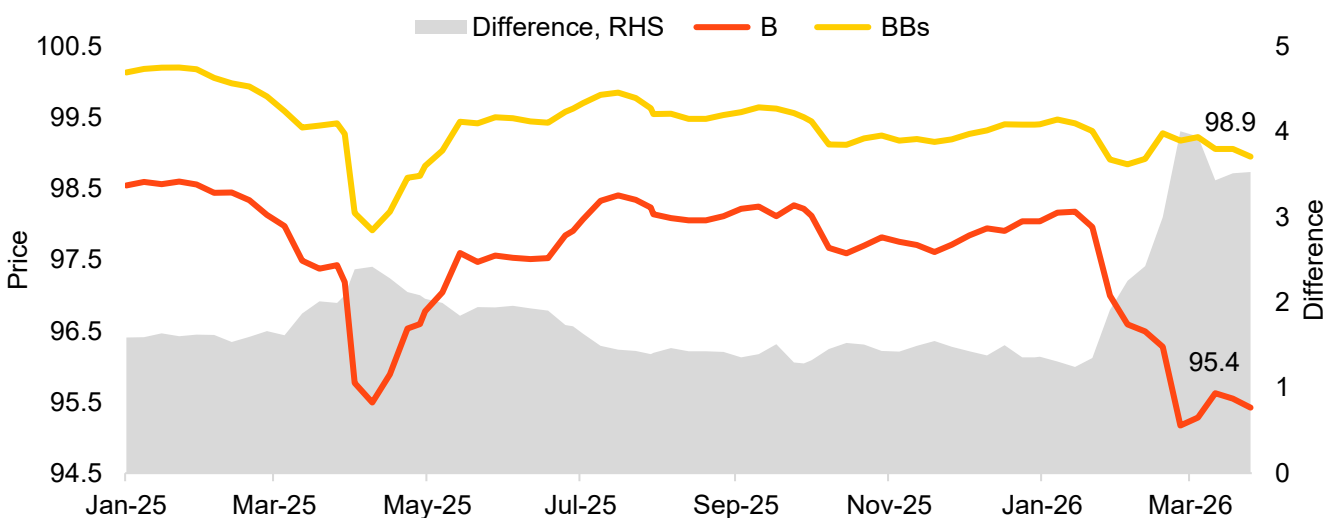
Year-to-date change in index option-adjusted spread to treasury curve for Bloomberg High Yield Corporate Index, and rating-specific indices



Source: Bloomberg, BlackRock. As of March 30, 2026.

Exhibit 22: B-rated loans have underperformed BBs

Weighted-average price for BB and B loans in the USD leveraged loan index, and difference



Source: Pitchbook LCD, BlackRock. As of March 27, 2026. Data is weekly and excludes oil and gas.

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Assessing the default backdrop

Such dispersion is also evident in default activity, which continues to highlight areas of stress beneath the surface.

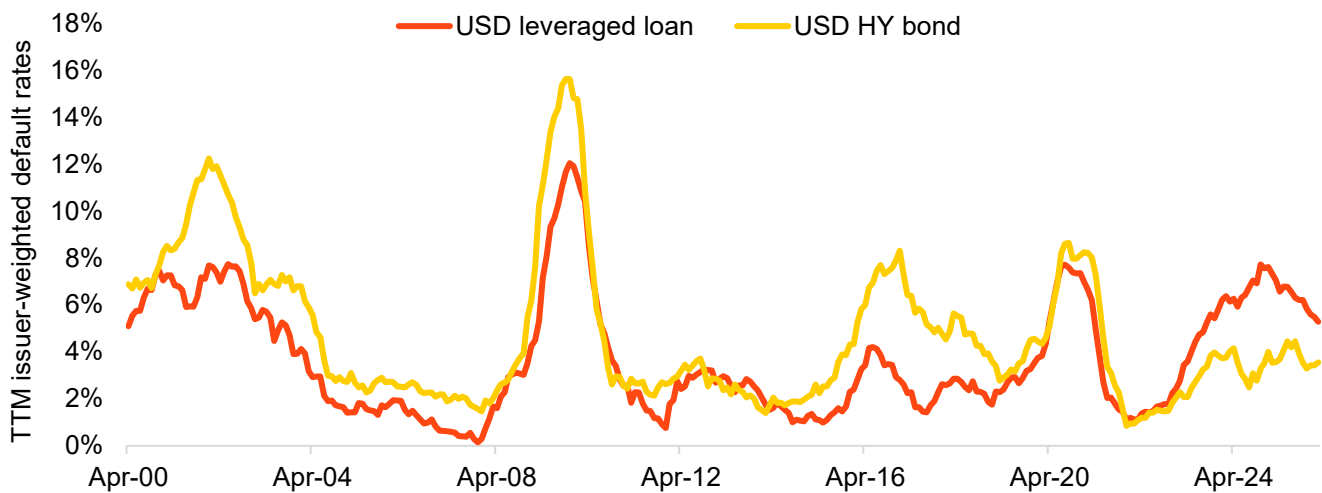
In recent years, USD leveraged loans have experienced higher default rates than USD HY bonds, driven in part by higher borrowing costs for floating-rate issuers following the steep 2022–2023 rate hikes, as well as differences in index composition. More recently, this dynamic has begun to moderate, with leveraged loan default rates declining while HY defaults have remained range-bound (Exhibit 23).

At the same time, repeat defaulters continue to meaningfully contribute to default activity, representing 36% of total default transactions YTD, per data from JP Morgan, largely driven by distressed exchange activity (Exhibit 24).

Looking ahead, index composition and default type, including the prevalence of distressed exchanges, are likely to remain key drivers of default activity, in our view.

Exhibit 23: The default rate between USD LLs and HY bonds has converged over time

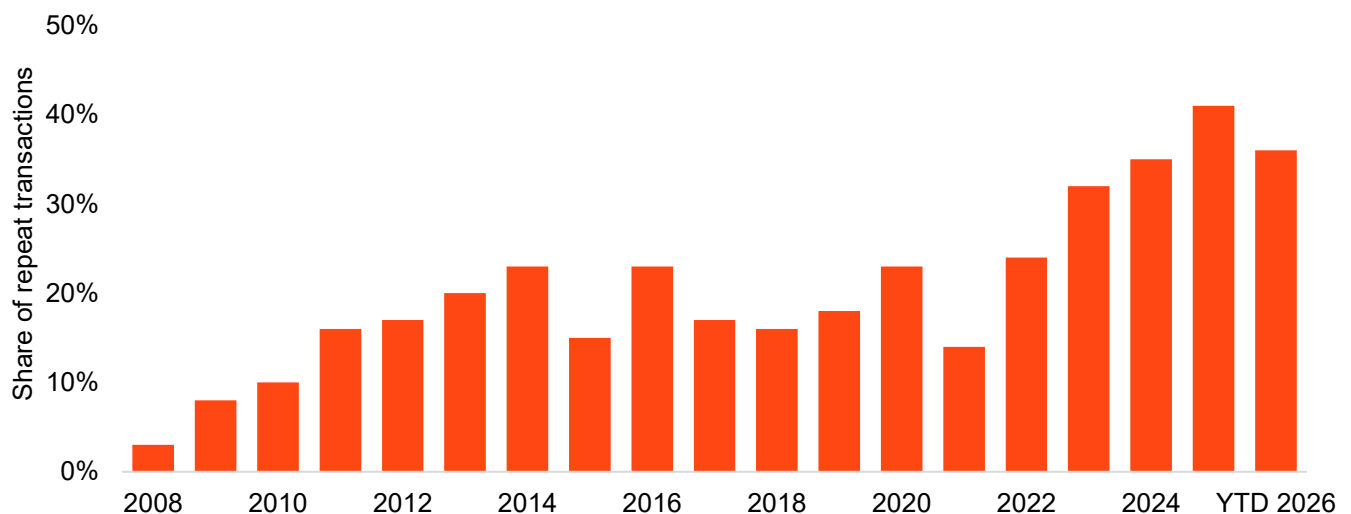
Trailing 12-month, issuer-weighted default rates for the universe of USD HY bonds and USD leveraged loans tracked by Moody's



Source: BlackRock, Moody's. As of February 28, 2026.

Exhibit 24: Repeat defaulters have represented 36% of default transactions YTD

Share of repeat defaulters in the USD credit market



Source: JP Morgan Research, PitchBook LCD, Bloomberg Finance, S&P/IHS Markit Data, BlackRock. As of March 1, 2026.

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Private credit

Resilient, in aggregate, though signals of stress warrant close monitoring

Checking in on performance across private credit

Private credit has remained firmly in focus in recent months, as investors reassess its role in a lower-rate and more uncertain macro environment. Questions around borrower health and fund liquidity have also come to the forefront, making it increasingly important to distinguish between shifting sentiment and underlying fundamentals.

That said, private credit data continues to point to a nuanced picture. Fundamentals remain resilient in aggregate, supported by solid earnings and improving coverage, though dispersion is meaningful. Select stress indicators remain steady, while realized losses remain below historical averages.

Taken together, private credit continues to demonstrate durability, but the environment increasingly favors disciplined underwriting and selectivity.

Tracking private credit fundamentals

With the most recent [earnings](#) data in hand, we have a better understanding of how private credit borrowers are navigating the current environment. The takeaway? Private credit fundamentals remain solid in aggregate, supported by steady earnings growth and improving interest coverage, though underlying performance continues to show meaningful dispersion across borrowers.

Growth

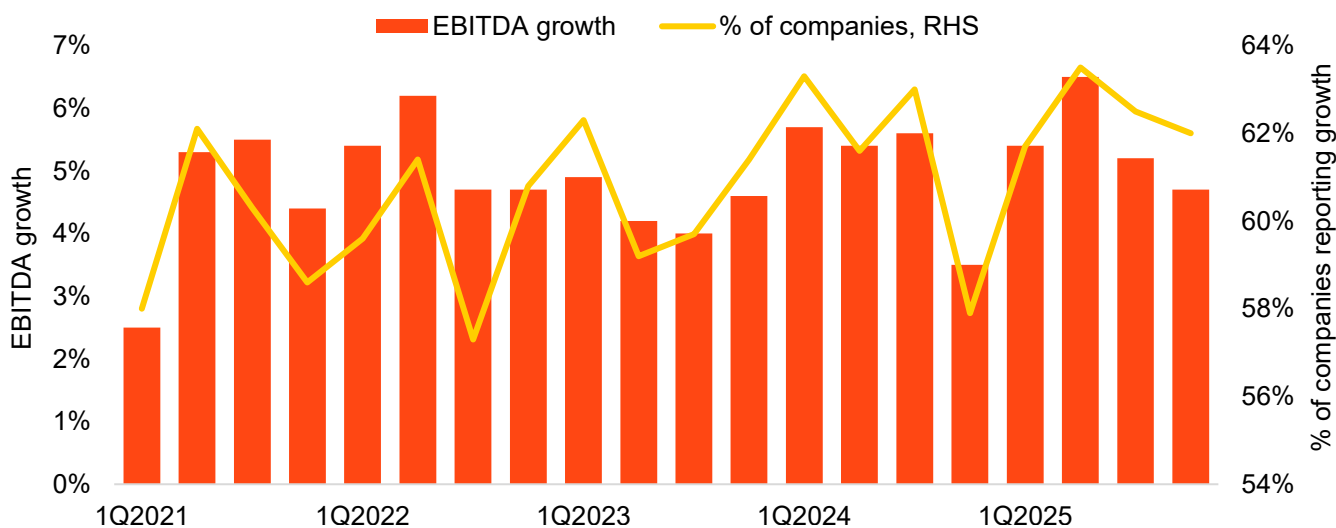
We start with data from the Lincoln VOG Proprietary Private Market database, which captures approximately 7,000 U.S. portfolio valuations and an estimated 30% of private equity-backed companies as of 4Q2025.

Exhibit 25 shows YoY last-twelve-month (LTM) adjusted EBITDA growth across the database. A majority of borrowers, 62%, continued to grow in the fourth quarter. However, aggregate growth moderated to 4.7% in 4Q2025, modestly below the five-year average of 4.9%. Lincoln International notes that this deceleration likely reflects the effects of tariffs and elevated market uncertainty.

That said, as we've detailed [previously](#), a look under the surface demonstrates dispersion among borrowers. For example, as of 4Q2025, larger borrowers have demonstrated greater consistency in maintaining growth in recent quarters, relative to the smallest size cohort captured by Lincoln International (\$0-25 million EBITDA). This, in our view, underscores the advantages of scale, operating flexibility, and access to capital in a dynamic macro environment.

Exhibit 25: The majority of private credit borrowers continue to grow

Year-over-year last-twelve-month adjusted EBITDA growth for companies in the Lincoln VOG Proprietary Private Market database, and percentage of companies reporting positive EBITDA growth, RHS



Source: Lincoln VOG Proprietary Private Market Database, BlackRock. As of 4Q2025. EBITDA growth includes the impact of acquisitions/inorganic growth.

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Interest coverage

Recent data for U.S. and European private credit borrowers show continued improvement in both interest coverage and fixed charge coverage ratios, supported in part by declining policy rates that have lowered borrowing costs for those with floating-rate debt (Exhibits 26 and 27, note that Exhibit 27 is as of 3Q2025, the most recent data available).

Looking ahead, the path to further improvement is likely to be uneven across regions. In the U.S., a higher-for-longer rate environment suggests that improvements in interest coverage would depend on growth rather than additional material rate relief. In Europe, a potential shift toward higher policy rates could act as a headwind to coverage ratios for floating-rate borrowers.

Exhibit 26: Interest coverage and fixed charge coverage for U.S. firms improved in 4Q2025

Median interest coverage and fixed charge coverage, RHS, ratios for U.S. firms tracked by Lincoln International's Proprietary Private Market Index

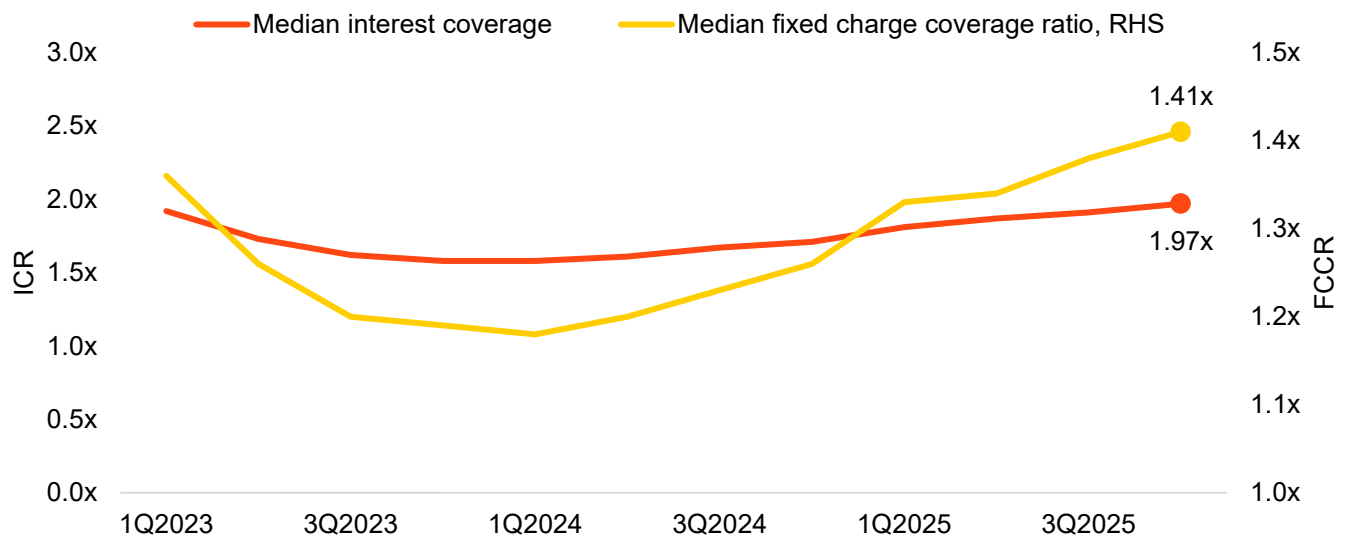
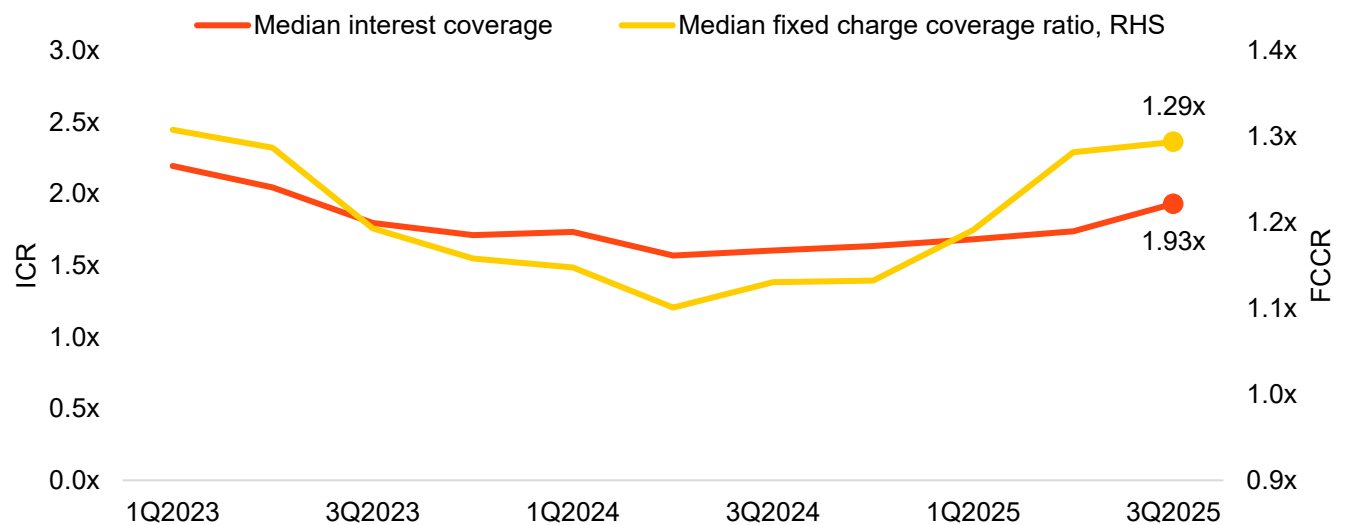


Exhibit 27: European firms have seen improvements in recent quarters, as well

Median interest coverage and fixed charge coverage, RHS, ratios for European firms tracked by Lincoln International's Proprietary Private Market Index



For both charts: Source: Lincoln International, BlackRock. U.S. data is as of 4Q2025, Europe data is as of 3Q2025 (most recent as of March 31, 2026). Calculation of Interest Coverage = PF LTM EBITDA / Interest. Calculation of fixed charge coverage ratio = (PF LTM EBITDA - Taxes - Capex) / (Interest Expense + (1% * Total Debt)). Capital Expenditures ("Capex") utilizes LTM capex by default. If LTM Capex is unavailable, a proxy is determined using either NFY Capex, LFY Capex, or by estimating it as a percentage of revenue. Note: Interest calculations exclude companies using Payment-in-Kind (PIK) interest if cash interest is not being paid. Adjusted EBITDA rather than reporting EBITDA was utilized within the analysis.

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Volatility may support incremental private credit opportunity

Episodic market volatility has defined recent market conditions and, in our view, is likely to persist through 2026. This backdrop, combined with broader macro and sector-level uncertainties, can constrain issuers' ability to reliably access syndicated credit markets (as we noted on [page 12](#)).

During these times, certainty of execution, which private credit lenders can provide, becomes increasingly valuable for borrowers. We expect that this dynamic could expand private credit's addressable market.

Exhibit 28 highlights private market 'steals', or activity moving from the syndicated loan market to private credit, using data from KBRA DLD. Notably, volume has increased each subsequent year since 2022. That said, the count of steals fell in 2025, suggesting that the average loan size increased.

We expect movement between markets will ebb and flow

The increasing overlap between private credit and the syndicated markets is also evident in refinancing activity between the two, characterized as "takeouts." Indeed, Exhibits 29 and 30 (next page) demonstrate takeout activity in both U.S. and European markets.

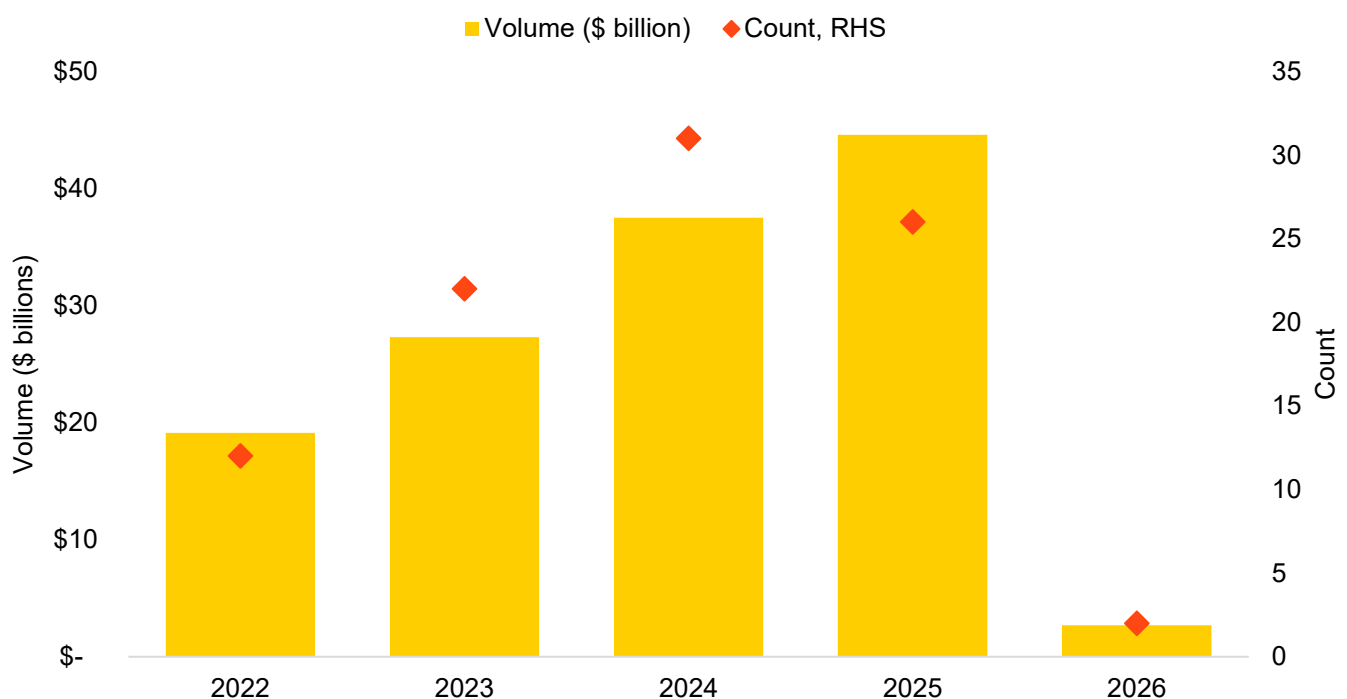
In 2025, U.S. activity modestly favored direct lending, with volume of BSL refinanced by direct lending totaling \$37 billion, vs. \$34 billion for volume of direct lending refinanced by BSL. In Europe, aggregate takeout activity was relatively even, totaling approximately €7 billion for each. Last three-month activity in both markets notably favors the BSL market, likely driven by a risk-on sentiment in January.

Both regions demonstrate shifts between quarters, underscoring how market sentiment and the macro backdrop can influence movement between markets.

Looking ahead, we expect that episodic volatility, and continued uncertainties in the macro backdrop, may support higher takeout activity from BSL into private credit. That said, we expect that activity between the two markets will continue to ebb and flow over time.

Exhibit 28: We see scope for private market steals to increase should volatility persist

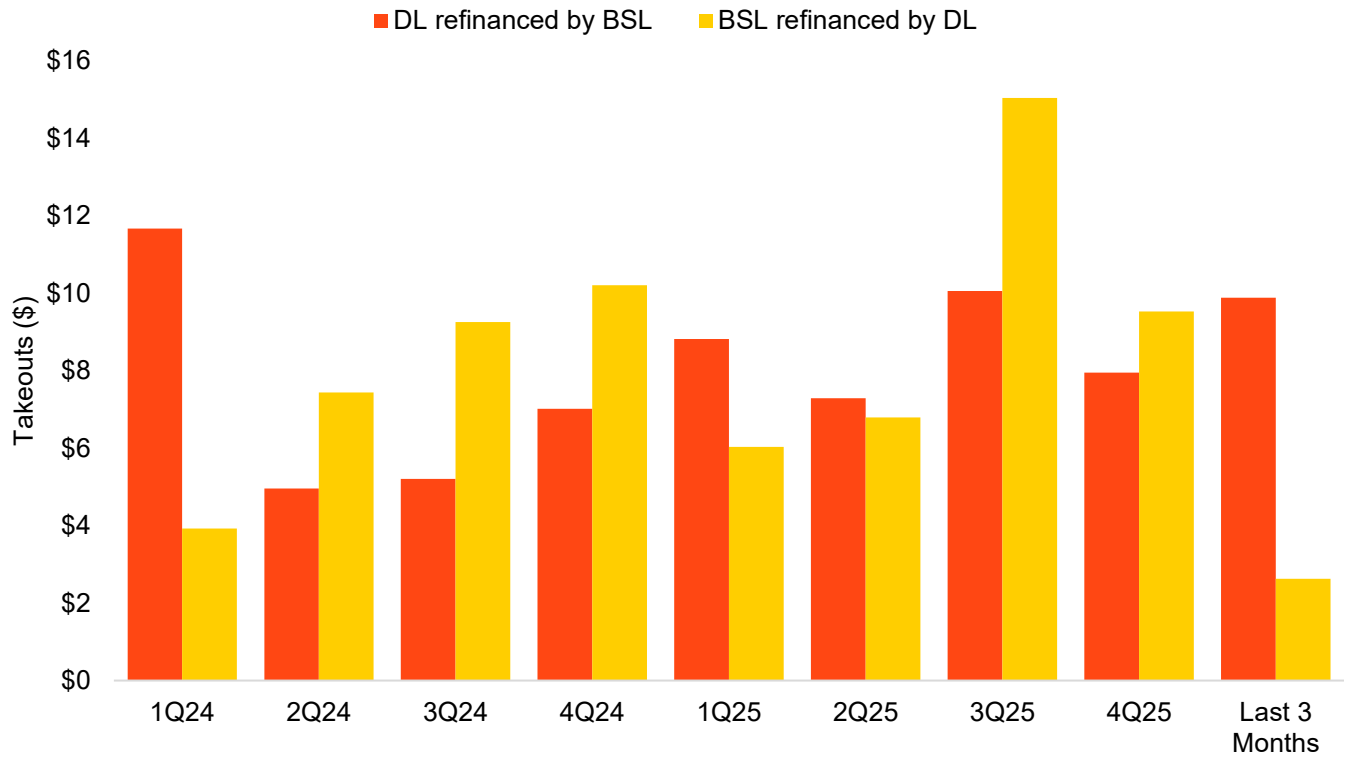
Annual private market steals in \$ billions, and count, RHS



Source: KBRA DLD News, BlackRock. YTD 2026 as of March 31, 2026. Note that volume may be understated because volume was not available for a few transactions.

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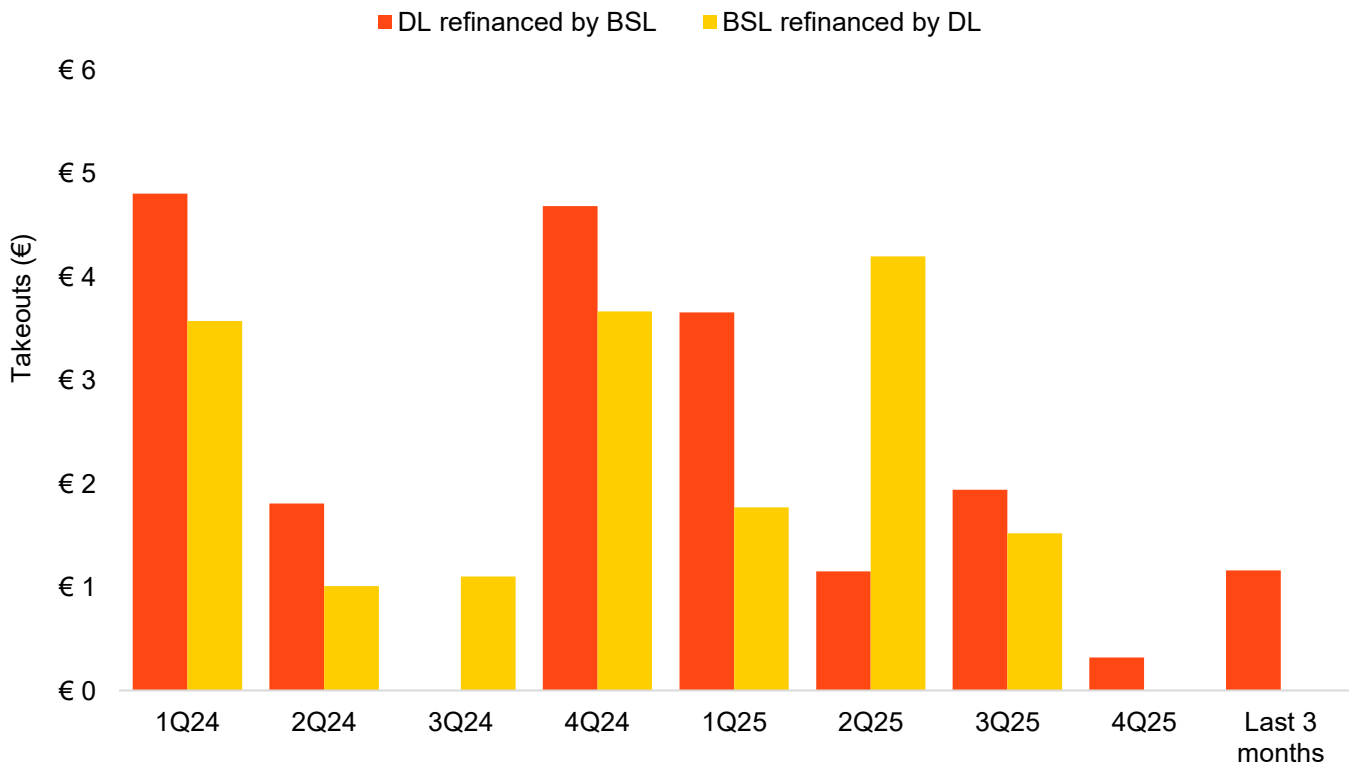
Exhibit 29: Takeout activity has favored the BSL market over the last 3 months in the U.S...
 U.S. broadly syndicated loans and direct lending takeouts, in \$ billions



Source: Pitchbook LCD, BlackRock. Historical data is subject to revisions as LCD collects additional information. As of February 28, 2026.

Exhibit 30: ...and in Europe

Europe broadly syndicated loans and direct lending takeouts, in € billions



Source: Pitchbook LCD, BlackRock. Historical data is subject to revisions as LCD collects additional information. As of February 28, 2026.

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Monitoring stress indicators

Despite resilient fundamentals, borrower performance remains notably dispersed. In the following section, we review a range of potential borrower stress indicators across the asset class.

Payment-in-kind (PIK) interest

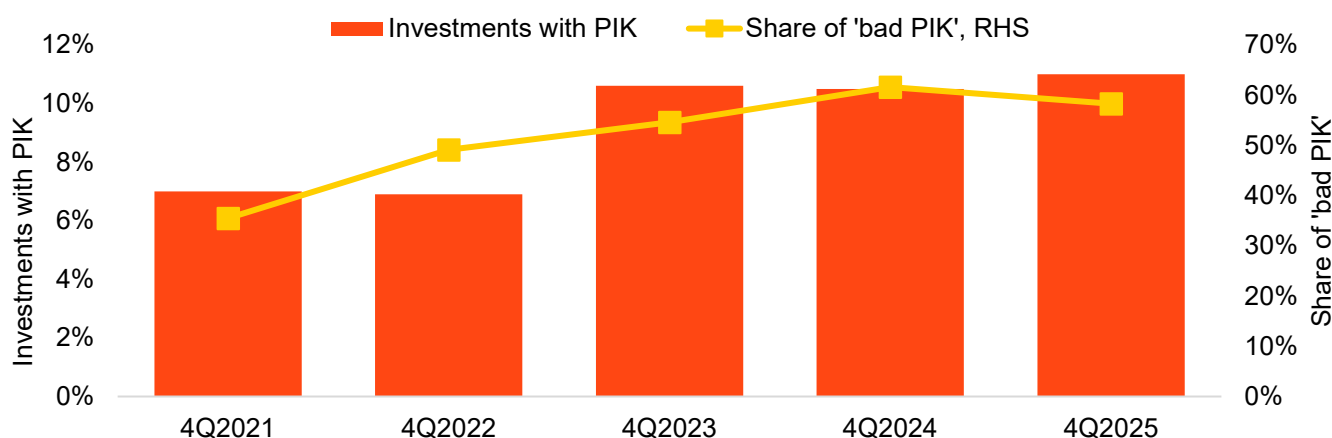
We begin with payment-in-kind (PIK) utilization, which can offer insight into underlying borrower pressures, particularly among companies that may face challenges meeting cash interest obligations. PIK interest refers to interest paid in the form of additional non-cash principal rather than cash.

Data from Lincoln International highlights an important distinction, bifurcating between ‘good PIK’ (i.e., PIK included at underwriting), and ‘bad PIK’ (i.e., PIK amended into terms after origination). ‘Bad PIK’ typically suggests emerging financial stress.

More recently, the share of U.S. investments with ‘bad PIK’ has declined modestly relative to year-end 2024 (Exhibit 31). In Europe, while the share remains higher than at year-end 2024, it has decreased on a quarter-over-quarter basis (Exhibit 32). Taken together, these trends suggest some stabilization in PIK-related deterioration, though they warrant continued monitoring, in our view.

Exhibit 31: The share of investments with ‘bad PIK’ has edged down vs. late 2024

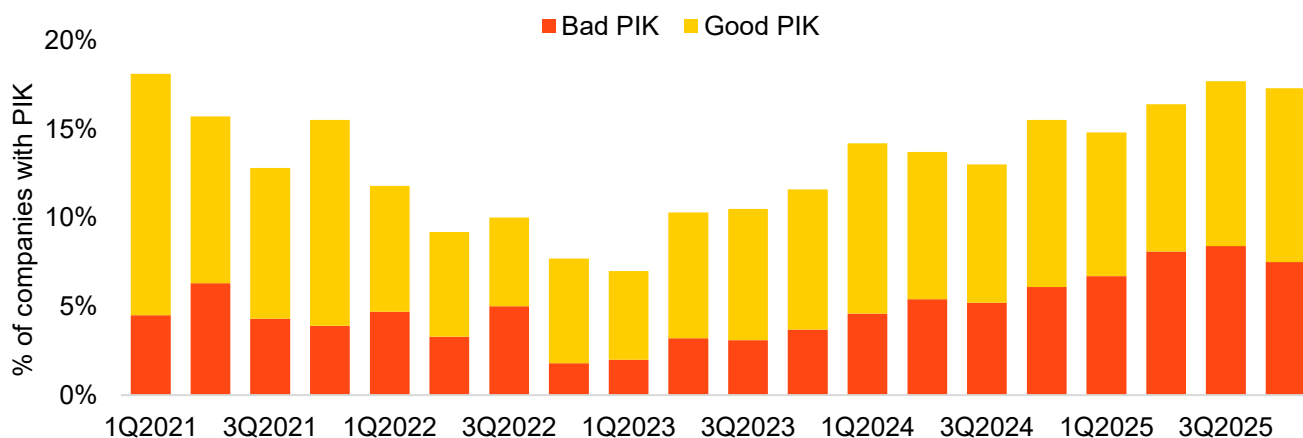
For the U.S. companies tracked by Lincoln International, the share of total investments with PIK interest, and the share of PIK-paying investments with ‘bad PIK’ (i.e., without PIK at close), RHS



Source: Lincoln International Proprietary Private Market Database, BlackRock. As of 4Q2025. ‘Bad PIK’ is defined as PIK amended into existing credit agreements. ‘Good PIK’ is defined as PIK included in initial agreements at underwriting.

Exhibit 32: ‘Bad PIK’ in the EUR private credit market has increased modestly

Share of companies using payment-in-kind (PIK) interest based on PIK classification (‘good PIK’, ‘bad PIK’) for European companies in the Lincoln International Proprietary Private Market database



Source: Lincoln International Proprietary Private Market Database, BlackRock. As of 4Q2025. ‘Bad PIK’ is defined as PIK amended into existing credit agreements. ‘Good PIK’ is defined as PIK included in initial agreements at underwriting.

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Covenant defaults

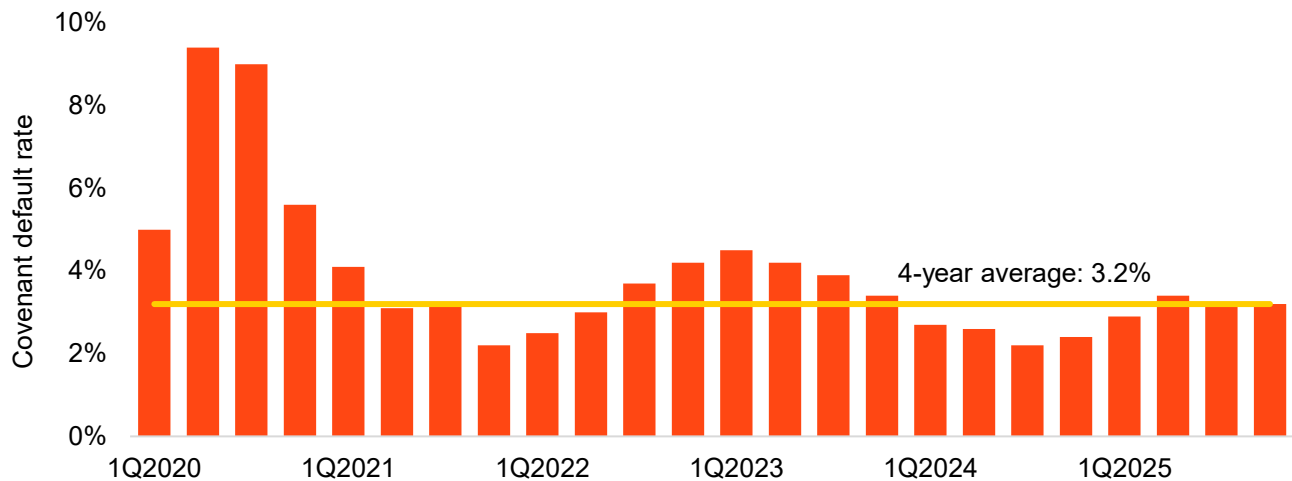
Covenant defaults can also serve as a useful barometer of financial pressure in private credit. In 4Q2025, default rates in the U.S. were stable, while declining in Europe (see Exhibits 33 and 34). This likely reflects a combination of improving borrower fundamentals and lenders' willingness to work constructively with borrowers, including amending covenants ahead of potential breaches. In Europe, the decline was also influenced by a single large borrower exiting default during the quarter.

European data also captures covenant "holidays," or temporary suspensions of covenant testing. While outcomes vary, the effectiveness of amendments or covenant relief in resolving borrower stress and preserving value depends on lender expertise and the underlying viability of the business and its capital structure.

Importantly, private credit covenant defaults do not necessarily result in realized losses. As such, we consider defaults alongside realized loss data, which more directly reflects lender outcomes, in our view (Exhibit 36, next page).

Exhibit 33: Covenant defaults held steady in the U.S....

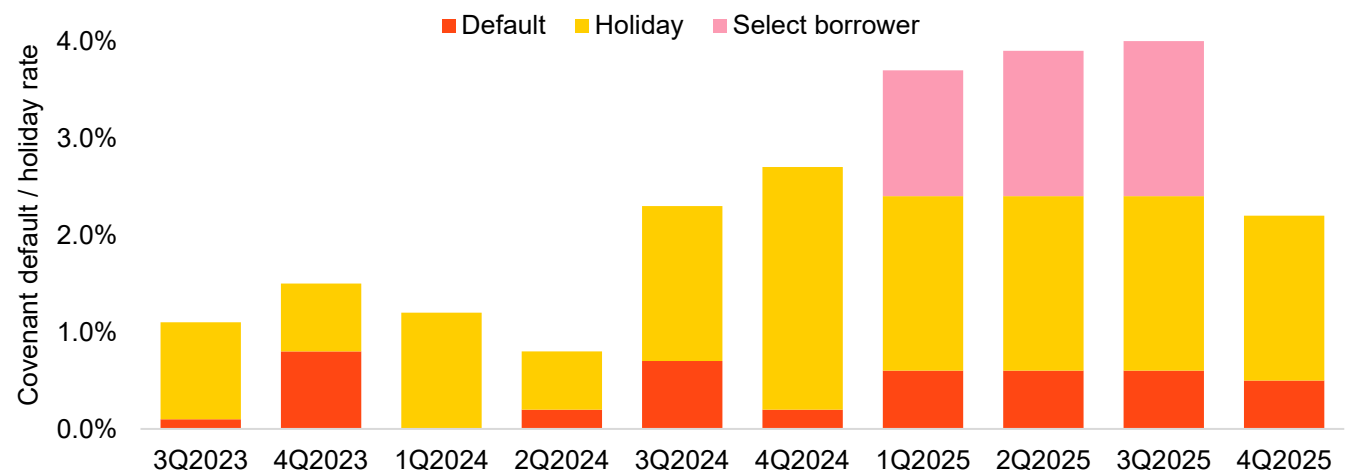
Aggregate size-weighted covenant default rate, and the 4-year historical average, for the U.S. portfolio companies included in the Lincoln International Proprietary Private Market Database



Source: Lincoln International Proprietary Private Market Database, BlackRock. As of 4Q2025. A default is defined by Lincoln as a covenant default (not necessarily a monetary default). The calculation is size-weighted and considers the total net debt balance for each of the portfolio companies that had a defaulting security in the respective quarter.

Exhibit 34: ...and fell modestly in Europe

Size-weighted covenant default and holiday rate, for European companies in the Lincoln VOG Proprietary Private Market database



Source: Lincoln International, BlackRock. 4Q2025 data is preliminary. Select borrower captures the impact of one large issuer, which represents a 1.3% (Q1), 1.5% (Q2), and 1.6% (Q3) contribution to covenant holiday rate.

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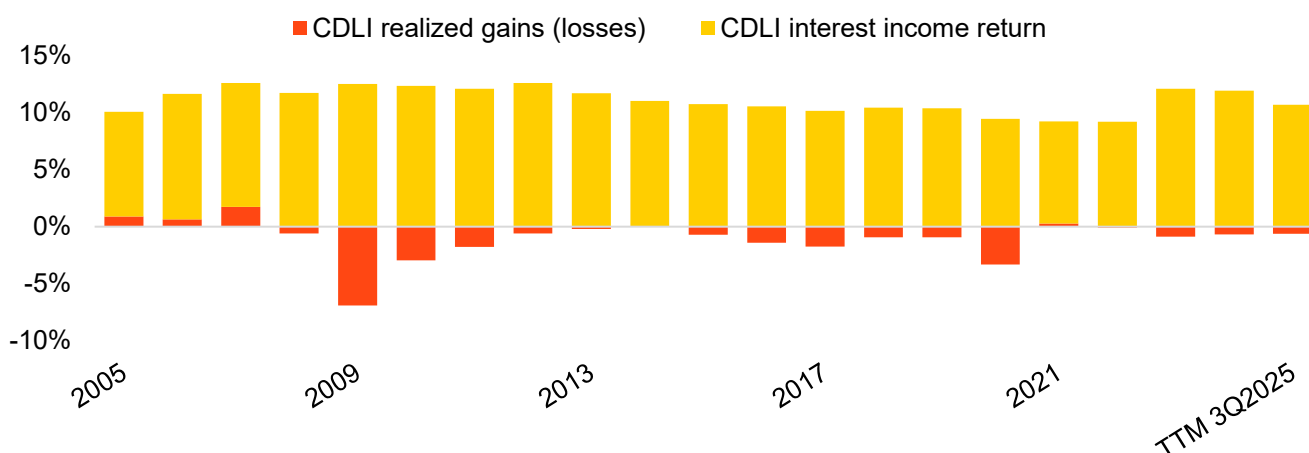
Private credit performance remains resilient

Even as dispersion and select stress indicators persist, realized outcomes across private credit continue to reflect underlying resilience. Indeed, using the most recent data, trailing twelve-month interest income and realized losses in the Cliffwater Direct Lending Index (CDLI) remain resilient (Exhibit 35). The CDLI represents more than 20,000 U.S. loan segments, and covers approximately \$514 billion in AUM. A February 2026 Cliffwater [report](#) shows preliminary full-year 2025 income of 10.39%, with realized losses of 0.70%, well below the long-term average of 1.01%.

Further, we view realized loss rates as more informative than default rates when comparing credit markets, driven by the increased prevalence of maintenance covenants in private credit structures. Exhibit 36 shows that realized loss rates for the CDLI have compared favorably to the public markets over time. In periods of financial market stress, such as the global financial crisis of 2007–2009, the energy sector disruption of 2014–2015, and the pandemic in early 2020, net realized losses for the CDLI were similar to or lower than losses in the USD HY bond and leveraged loan markets.

Exhibit 35: Private credit realized losses remain contained

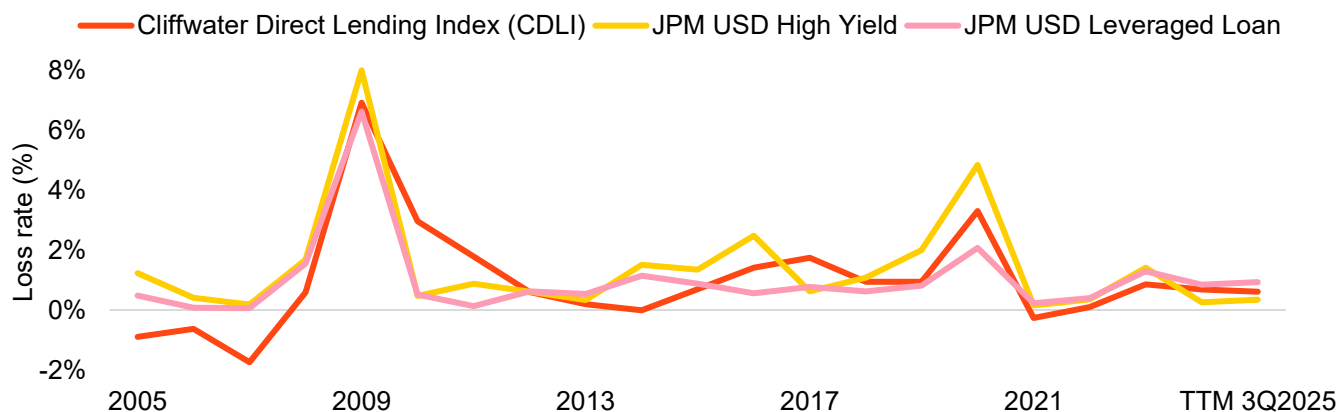
Trailing 12-month interest income return and realized gains (losses) for the Cliffwater Direct Lending Index



Source: Cliffwater Direct Lending Index, BlackRock. As of 3Q2025 (most recent finalized data available.) The preliminary full year 2025 values cited above are available in the February 23, 2026 [report](#) from Cliffwater. Realized gains in the CDLI can be driven by equity stubs, warrants, and gains on exited investments. These were more common in 2005–2007, when second lien and mezzanine loans were a greater portion of the CDLI.

Exhibit 36: Realized losses in private credit track the syndicated markets

Realized annual and trailing 12-month loss rates (all par-weighted) for the Cliffwater Direct Lending Index, and for the universe of USD leveraged loans and HY bonds tracked by JP Morgan



Source: Cliffwater, JP Morgan, BlackRock. For the CDLI, we show annual and trailing 12-month realized loss rate data for 3Q2025. Realized gains in the CDLI can be driven by equity stubs, warrants, and gains on exited investments. These were more common in 2005–2007, when second lien and mezzanine loans were a greater portion of the CDLI. For USD Leveraged Loans and High Yield, we show implied loss rates based on JPM's actual par-weighted default and recovery rates.

For both charts: The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results. Index performance returns do not reflect any management fees, transaction costs, or expenses. Indices are unmanaged, and one cannot invest directly in an index.

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Framing private credit's exposure in the broader ecosystem

Recent increases in redemption requests across semi-liquid private credit vehicles, including perpetual non-traded business development companies (BDCs), have sharpened investor focus on liquidity dynamics and the implications of meeting those requests. In our view, the recent increase in redemptions is likely driven by a combination of factors, including rate-driven reallocations and macro and sector-specific uncertainties (including software, for example), rather than a broad-based deterioration in underlying borrower fundamentals.

Thus far, a number of perpetual non-traded BDCs reported 1Q2026 redemption requests exceeding typical quarterly limits. Managers have responded in different ways, with some honoring requests above stated thresholds and others affirming caps and allocating liquidity on a pro-rata basis.

As such, market participants have questioned whether heightened redemptions will influence other parts of the financing ecosystem, such as the BSL market, the bond market, and the banking system. For context, managers may generate liquidity in a variety of ways, including methods that are portfolio-based or funding-based.

BSLs: From a portfolio perspective, managers may choose to sell more liquid assets in their portfolios, such as BSLs, which trade in secondary markets. A report from Goldman Sachs estimates that perpetual non-traded BDCs have aggregate exposure of \$35 billion to syndicated loans (Exhibit 37), relative to approximately \$1.53 trillion of U.S. leveraged loan par value outstanding as of March 31, 2026, per PitchBook LCD. As such, we believe redemption-driven BSL sales could represent a modest and contained technical headwind for secondary market loan performance in the near and medium term.

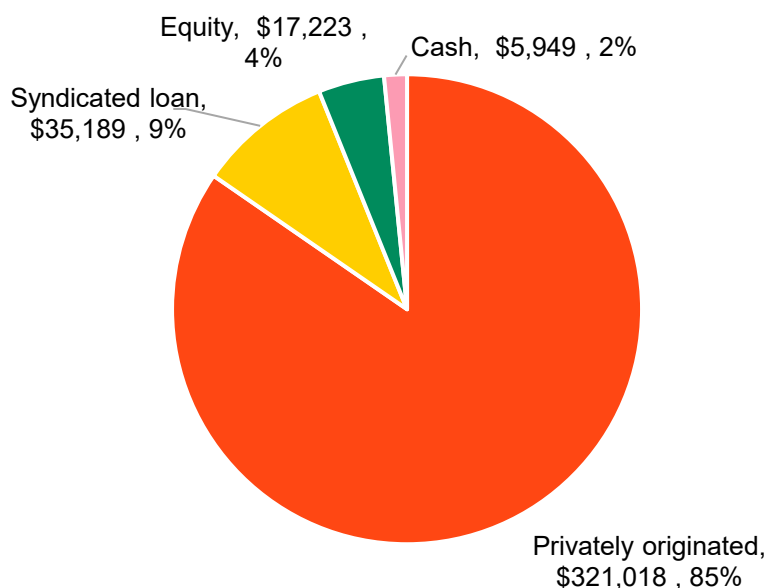
Public credit and banking system: Further, BDCs typically rely on a mix of secured and unsecured financing. These funding channels link private credit to both the public credit markets and the banking system.

The Office of Financial Research estimates total BDC borrowings from both banks and nonbanks to be approximately \$195 billion as of year-end 2024. The report notes that private credit exposures are often overcollateralized and generally exhibit favorable risk characteristics.

Taken together, this data suggests that while private credit's role within the financing ecosystem has expanded, its current scale remains manageable. Continued growth, however, warrants monitoring as market dynamics evolve.

Exhibit 37: Perpetual non-traded BDCs hold an estimated \$35 billion of syndicated loans

Estimated perpetual non-traded credit asset composition, in \$ millions



Source: Goldman Sachs Global Investment Research, company data, BlackRock. As of 3Q2025.

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Commercial real estate

Continued progress toward complete recovery

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CRE asset values have stabilized, but remain uneven

Commercial real estate (CRE) continues to show signs of a slow but steady recovery following a prolonged period of repricing driven by higher borrowing costs, though progress remains uneven across property types. With a cumulative 175 basis points of policy rate cuts delivered for this cycle, the backdrop appears incrementally more supportive.

Data from the MSCI Real Capital Analytics Commercial Property Price Index (RCA CPPI) suggests valuations have likely reached a trough, with modest improvement for some property types through 2025 and into early 2026 (Exhibit 38).

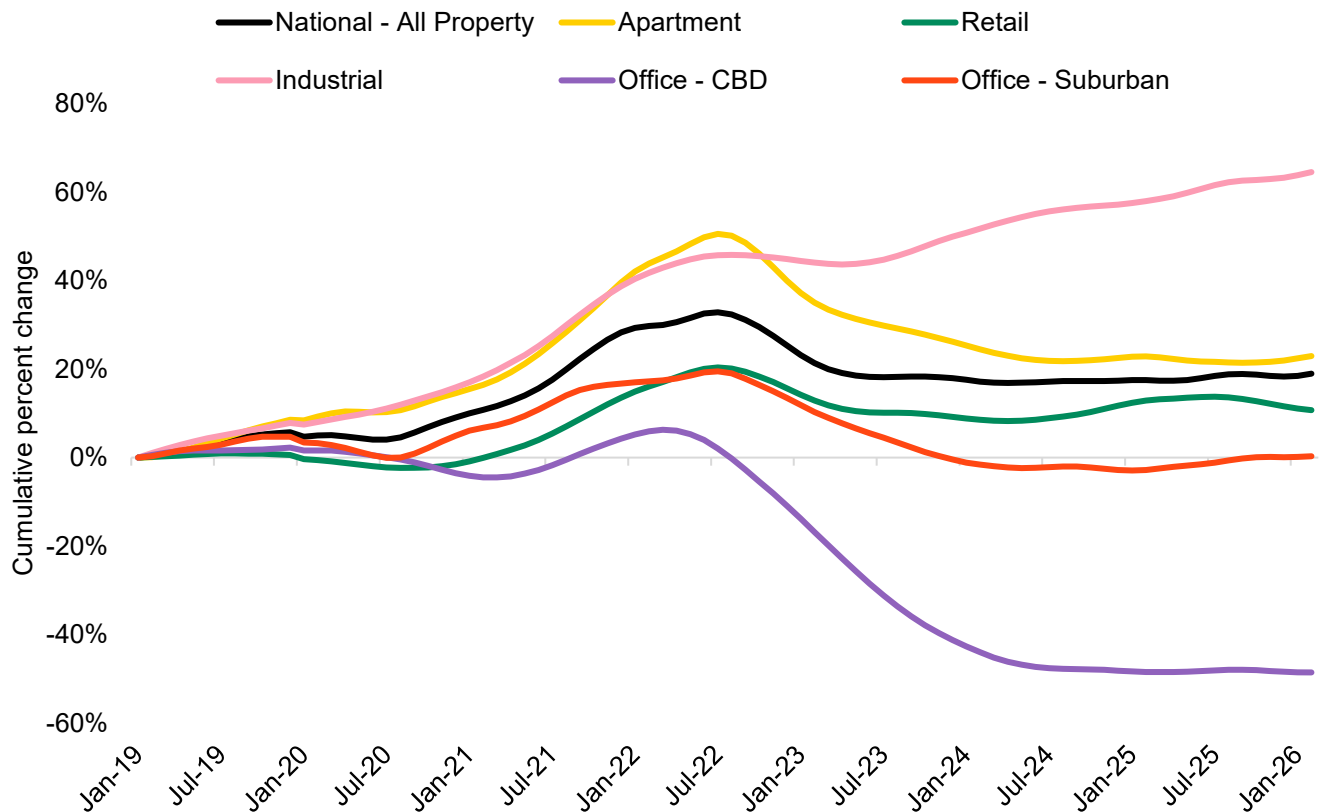
Importantly, property values across sectors have largely stabilized. In our view, this is a key input for CRE's sustained recovery, as price stability supports price discovery (i.e., agreement between buyers and sellers on asset prices). Said differently, price stability can help narrow the gap between buyer and seller expectations.

That said, the recovery remains gradual and differentiated across sectors. Industrial assets have been a relative outperformer, supported by structural demand tailwinds including logistics and supply chain investment, with values up approximately 64% since January 2019.

In contrast, central business district (CBD) office properties remain under pressure, reflecting persistent headwinds such as work-from-home dynamics and tenant preference for higher-quality space (such as those that include amenities).

Exhibit 38: Data shows continued stabilization in CRE asset values

Cumulative percent change in the level of the Real Capital Analytics Commercial Property Price Indices (RCA CPPI), since January 2019



Source: MSCI Real Capital Analytics, BlackRock. As of February 28, 2026 (most recent available).

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Transaction volume rises for U.S. CRE

Transaction volume is a key indicator of CRE market health and another critical input to price discovery, alongside price stability, in our view.

Activity improved for a second consecutive year in 2025, with full-year U.S. CRE transaction volumes rising 28% year-over-year. This was influenced by an exceptionally strong fourth quarter, in which transaction volumes accelerated 40% relative to 4Q2024 (Exhibit 39).

Volumes were boosted by one large data center transaction in 4Q2025. That said, even when excluding this select transaction, volumes demonstrated strong growth.

We believe this improvement reflects a combination of lower financing costs, greater clarity on select property-specific headwinds, and more stable asset values, which has helped narrow the expectations gap between buyers and sellers.

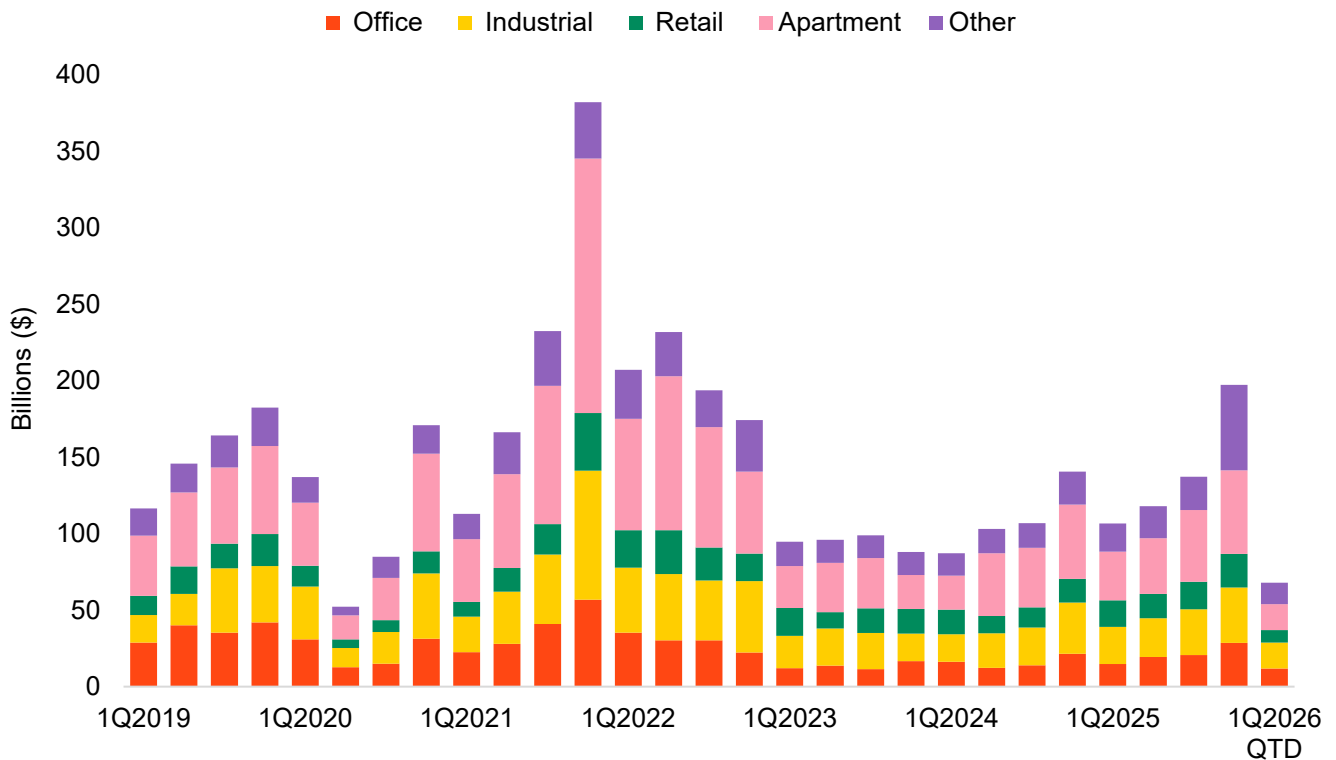
That said, dispersion remains pronounced across property types. For example, industrial and apartment transaction activity exceeded pre-COVID (1Q2016 – 4Q2019) averages in 4Q2025.

In contrast, office activity continues to lag, with volumes at approximately 81% of pre-COVID quarterly averages as of 4Q2025. Still, office transaction activity reached its highest level since 3Q2022 in the fourth quarter, suggesting that ongoing repricing, combined with rate cuts and improved visibility into structural headwinds, has begun to support activity.

In our view, while transaction activity has begun to recover, the pace and durability of that recovery will remain differentiated, reflecting both sector-specific fundamentals and the extent to which asset pricing has adjusted to the current rate environment.

Exhibit 39: 4Q2025 CRE transaction volume grew 40% relative to 4Q2024

U.S. CRE transaction volume by property type, in \$ billions



Source: MSCI Real Capital Analytics, BlackRock. 1Q2026 QTD captures data through February 28, 2026. Other includes hotels, dev sites, seniors housing & care, and data centers.

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Still, CRE loan maturities underscore continued dispersion

We expect refinancing and amendment activity to reflect continued dispersion over the year ahead.

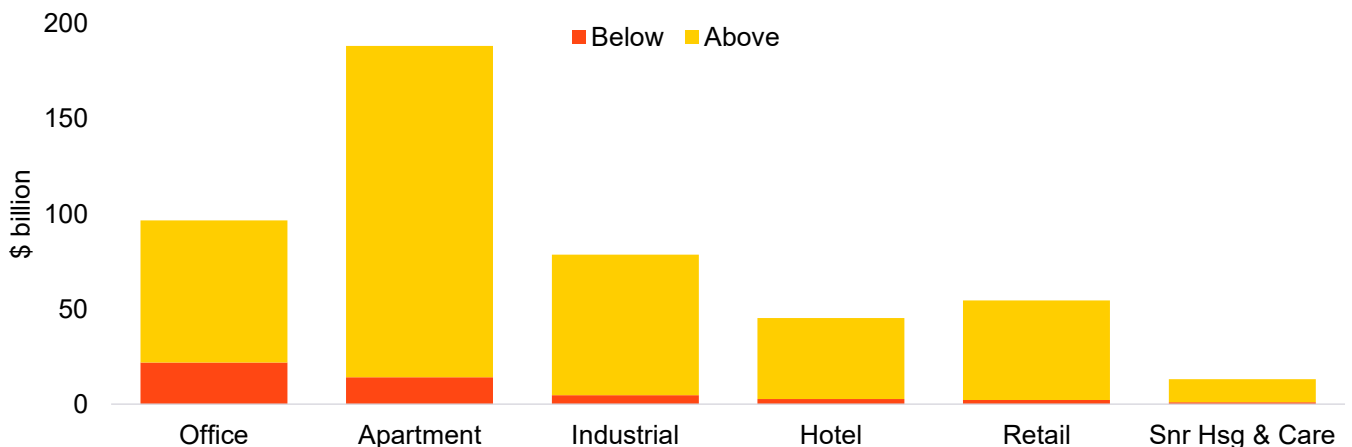
As we've discussed [previously](#), lenders' willingness to amend loans is often contingent on whether such actions improve the likelihood of a more favorable outcome, such as a more complete principal recovery in the event of borrower stress. In less stressed environments, fewer maturities require modification.

That said, analyses of upcoming loan maturities from RCA highlight continued dispersion, with office properties proving to be the most challenged. For example, among 2026 CRE loan maturities, office loans account for the largest share of "stressed" volume. Indeed, approximately 23% of office debt maturing in 2026 is tied to properties whose estimated values are *below* outstanding loan balances, compared with an average of less than 7% across other sectors (Exhibit 40). Notably, more than half of stressed office loan volume was originated in 2021, when borrowing costs were low (Exhibit 41).

These dynamics suggest that CRE is increasingly positioned for recovery at the aggregate level, even as outcomes continue to diverge by property type and loan vintage. For investors, this environment reinforces the importance of selectivity and diversification, as refinancing outcomes will play a key role in shaping performance across the CRE landscape.

Exhibit 40: Office properties account for the largest share of stressed loan maturities in 2026

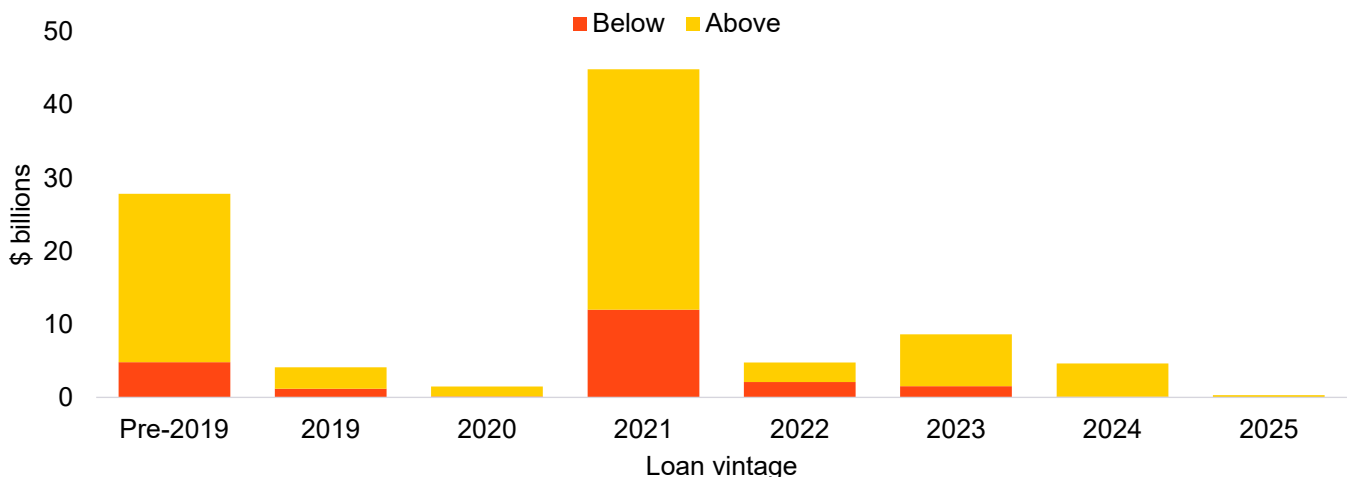
2026 CRE loan maturities by property type (\$bn), classified by whether estimated current property values are 'above' or 'below' outstanding loan balances



Source: MSCI Real Capital Analytics, BlackRock. Captures data through December 31, 2025.

Exhibit 41: 2021 vintage office loans demonstrate the most stress

2026 office property loan maturities (\$bn), by vintage year, classified by whether estimated current property values are 'above' or 'below' outstanding loan balances



Source: MSCI Real Capital Analytics, BlackRock. Captures data through December 31, 2025.

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Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

Cliffwater Direct Lending Index (CDLI) is an index that assists investors to better understand private credit as an asset class. The CDLI seeks to measure the unlevered, gross of fees performance of U.S. middle market corporate loans, as represented by the underlying assets of Business Development Companies ("BDCs"), including both exchange-traded and unlisted BDCs, subject to certain eligibility criteria. The CDLI is an asset-weighted index that is calculated on a quarterly basis using financial statements and other information contained in the U.S. Securities and Exchange Commission ("SEC") filings of all eligible BDCs. Eligibility is set as all assets held by BDCs that (1) are regulated by the SEC as a BDC under the Investment Company Act of 1940; (2) have a substantial majority (approximately 75%) of reported total assets represented by direct loans made to corporate borrowers, as categorized by each BDC and subject to Cliffwater's discretion, and (3) file SEC form 10-Q (or 10-K, as applicable) within 75 (or 90) calendar days following the current Valuation Date. If a BDC meets the eligibility criteria, but has not filed its report on Form 10-K or 10-Q with the SEC at the time the index is reconstituted, asset information from its report will be included in the index at the time of the next reconstitution. This information is derived from sources that are considered reliable, but BlackRock does not guarantee the veracity, currency, completeness or accuracy of this information.

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